

City of Sterling Heights, Michigan

**Federal Awards
Supplemental Information
June 30, 2008**

City of Sterling Heights, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit information, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise of the City of Sterling Heights, Michigan's basic financial statements, and have issued our report thereon dated October 27, 2008. Those basic financial statements are the responsibility of the management of the City of Sterling Heights, Michigan. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sterling Heights, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 27, 2008

Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit information, each major fund, and the remaining aggregate information of the City of Sterling Heights, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sterling Heights, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Council, federal awarding agencies, and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 27, 2008

Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

Compliance

We have audited the compliance of the City of Sterling Heights, Michigan (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2008. The major federal program of the City of Sterling Heights, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility the City of Sterling Heights, Michigan's management. Our responsibility is to express an opinion on the City of Sterling Heights, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence of the City of Sterling Heights, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Sterling Heights, Michigan's compliance with those requirements.

In our opinion, the City of Sterling Heights, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

Internal Control Over Compliance

The management of the City of Sterling Heights, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Sterling Heights, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of use of management, the City Council, federal awarding agencies, and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 27, 2008

City of Sterling Heights, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Federal Agency/Pass-through Agency/ Program Titles	CFDA Number	Pass-through Entity Project/ Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Community Development Block Grant:	14.218	*		
2006-2007 B-06-MC-260014		N/A	\$ 729,570	\$ 176,658
2007-2008 B-07-MC-260014		N/A	699,478	372,326
2007-2008 Program Income		N/A	<u>120,563</u>	<u>120,563</u>
Total U.S. Department of Housing and Urban Development			1,549,611	669,547
U.S. Department of Homeland Security:				
Passed through the Michigan Department of State Police, Emergency Management Division - Emergency Management Performance Grant:	97.042			
10/01/06-9/30/07		N/A	32,382	7,885
10/01/07-9/30/08		N/A	<u>37,379</u>	<u>28,034</u>
Total passed through the Michigan Department of State Police			69,761	35,919
Passed through Macomb County, Michigan, Emergency Management and Communication 2005 Michigan Citizen Corps Program	97.067	N/A	7,000	6,957
Passed through Oakland County UASI Board 2006 State Homeland Security Grant Program 07/01/06 - 9/30/08 UASI ICS/NIMS Training	97.067	N/A	84,466	84,466
U.S. Immigration & Customs Enforcement - Balkan Organized Crime Task Force - 10/01/2007 - 09/30/2008	97.UNKNOWN	N/A	<u>15,000</u>	<u>1,609</u>
Total Department of Homeland Security			176,227	128,951
U.S. Department of Justice:				
Bulletproof Vest Partnership Program	16.607	N/A	150	150
Passed through U.S. Marshalls Service Task Force, City of Redford - High-Intensity Drug Trafficking Area - Detroit Fugitive Apprehension Task Force (DFAT):	16.000			
01/01/07 - 12/31/07		N/A	9,500	3,846
01/01/08 - 12/31/08		N/A	<u>15,572</u>	<u>4,799</u>
Total passed through U.S. Marshalls Service Task Force, City of Redford			25,072	8,645

* Major program

City of Sterling Heights, Michigan

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2008

Federal Agency/Pass-through Agency/ Program Titles	CFDA Number	Pass-through Entity Project/ Grant Number	Award Amount	Federal Expenditures
U.S. Department of Justice (Continued):				
Edward Byrne Memorial Justice Assistance - Program year 2007	16.738	2006-DJ-BX-0095	\$ 29,560	\$ 29,560
Federal Equitable Sharing Program - Justice	16.UNKNOWN	N/A	<u>290,590</u>	<u>290,590</u>
Total U.S. Department of Justice			345,372	328,945
Office of National Drug Control Policy:	07.UNKNOWN			
Passed through Drug Enforcement Agency:				
State and Local Task Force		N/A	15,854	15,854
Organized Crime Drug Enforcement Task Force		N/A	<u>12,280</u>	<u>12,280</u>
Total passed through Drug Enforcement Agency			28,134	28,134
Passed through the Oakland County Narcotic Enforcement Team (NET) - High-intensity Drug Trafficking Area:	07.UNKNOWN			
01/01/07 - 12/31/07 Supplemental		N/A	353	353
01/01/01 - 12/31/08		N/A	<u>7,500</u>	<u>7,500</u>
Total passed through Oakland County NET			<u>7,853</u>	<u>7,853</u>
Total Office of National Drug Control Policy			35,987	35,987
U.S. Department of Treasury - Federal Equitable Sharing Program - Treasury	21.UNKNOWN	N/A	92,591	92,591
U.S. Department of Transportation Cluster - Passed through Macomb County National Highway Traffic Safety Administration:				
State and Community Highway Safety - 10/01/07 - 09/30/08	20.600	N/A	19,465	19,465
Alcohol Traffic Safety and Drunk Driving Prevention - 10/01/06 - 09/30/07	20.601	N/A	2,339	2,339
Red Light Enforcement - 10/01/07 - 09/30/08	20.601	PT-06-05	<u>8,853</u>	<u>7,199</u>
Total U.S. Department of Transportation Cluster			30,657	29,003
United States Environmental Protection Agency - Site Assessment Grant - Passed through Macomb County Department of Planning and Economic Development - Site Assessment Grant	66.818	N/A	<u>40,000</u>	<u>33,480</u>
Total federal awards			<u>\$ 2,270,445</u>	<u>\$ 1,318,504</u>

City of Sterling Heights, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Sterling Heights, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount	
		Provided to Subrecipients	
Community Development Block Grant	14.218	\$	48,047

City of Sterling Heights, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

City of Sterling Heights, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None



Comprehensive Annual Financial Report

Richard J. Notte
Mayor

Deanna Koski
Mayor Pro Tem

Richard L. Bracci
Councilman

Yvonne D. Kniaz
Councilwoman

Joseph V. Romano
Councilman

Maria G. Schmidt
Councilwoman

Barbara A. Ziarko
Councilwoman

Mark D. Vanderpool
City Manager

Brian S. Baker
Finance and Budget Director

Leslie D. Reinhart, CPA
Controller

Rick J. Sanborn, CPA
Financial Services Manager

For the Fiscal Year Ended June 30, 2008

Prepared by the Office of Financial Services, City of Sterling Heights, Michigan

City of Sterling Heights, Michigan

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CITY COUNCIL
Mayor Richard J. Notte
Mayor Pro Tem Deanna Koski
Councilman Richard L. Bracci
Councilwoman Yvonne D. Kniaz
Councilman Joseph V. Romano
Councilwoman Maria G. Schmidt
Councilwoman Barbara A. Ziarko
CITY MANAGER
Mark D. Vanderpool

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CITY MANAGER'S COMPREHENSIVE SUMMARY OF FISCAL YEAR 2007/2008 AND A PROSPECTIVE LOOK AT THE FUTURE OF THE CITY OF STERLING HEIGHTS

Honorable Mayor, City Council, and Community Residents:

This executive summary is an analysis of the results of operations of the City of Sterling Heights and serves as the introduction to the City's Comprehensive Annual Financial Report for fiscal year 2007/2008. Contained within this report is pertinent information about the City's community, economy, and major initiatives completed during the past year, as well as a prospective look at the future.

STERLING HEIGHTS - AN ESTABLISHED AND RESPECTED COMMUNITY

The City of Sterling Heights was incorporated July 1, 1968 operating under a Council-Manager form of government. The City is governed by a Mayor and a six member City Council, who individually serve two-year terms. Elections are non-partisan and are held the first Tuesday of November in each odd-numbered year. The Mayor is a directly elected position, while the Council candidate who receives the highest number of votes in the general election serves as the Mayor Pro Tem. Under the Council-Manager form of government, the Mayor and City Council appoint two officials: the City Manager and the City Attorney. The City Manager is the chief administrative officer of the city and is responsible for its daily operations, while the City Attorney provides legal counsel to the City Council. The Mayor and City Council also appoint residents to the boards and commissions to assist in implementing initiatives set forth by the Sterling Heights City Council. More than 170 volunteers dedicate their time and talents to the City's 27 boards, commissions, authorities, and committees, as well as the Sterling Heights Community Foundation. From beautifying the community to regulating its development, board members and commissioners meet regularly to support the City Council and City Administration.

The City of Sterling Heights is a vibrant community with a strong sense of civic pride and determination by its community leaders. At 36.8 square miles, the City is bordered by M-59 on the north, 14 Mile Road on the south, Hayes Road on the east, and Dequindre Road on the west. Geographically, Sterling Heights is the third largest city in the state. There are more than 392 miles of roadway in Sterling Heights of which 346 miles are maintained by the City. Sterling Heights is a balanced community that is rich with cultural diversity, community wellness, and economic vitality. Sterling Heights continues to attract upscale housing developments, prestigious office complexes, and large commercial development projects. The 2008 estimated population for the City stands at 129,200, making Sterling Heights the fourth largest city in Michigan. There are 60 voting precincts in the city with more than 84,000 registered voters. City services are provided to 33,866 houses, 9,600 apartments, 6,891 condominiums, 1,691 mobile homes, and 2,540 commercial and industrial businesses.

TO STRIVE ON BEHALF OF ALL

Recognized as a progressive city, Sterling Heights' elected officials and professional staff are committed to providing outstanding services to city residents. The City's elected and administrative officials occupy leadership roles in state, regional, and national organizations, such as the Michigan Municipal League, Government Finance Officers' Association, and the International City/County Management Association.

Sterling Heights has pursued a policy dedicated to attracting and retaining highly qualified management personnel. The City provides a level of compensation sufficient to attract and retain the management talent and expertise necessary to properly serve the community. A majority of our supervisory personnel hold graduate degrees in their respective fields with over 95% of our city department heads holding post-graduate degrees. In addition to these credentials, several of our employees have received special recognition for their abilities from their peers via election to state or national offices of professional associations and as instructors at professional seminars.

The City's current administration has been in place for several years and has taken many steps toward improved budgeting, controlled costs, and improved efficiency. Staff restructuring, pay increases mirroring inflation, and the use of privatization where economically feasible have kept the City's salary expenditures manageable.

The 2008/09 approved budget includes funding for 621 full-time positions, a reduction of nine positions from the prior year saving approximately \$700,000. A majority of these positions are directly related to the reduced workload in the development areas. These personnel freezes will have minimal impact on services. The City has eliminated 28 vacant positions since 2002, saving \$2 million annually. As a result, our ratio of employees to residents is at a 30-year low. As evidenced by the ICMA's Center for Performance Measurement data, the City has one of the lowest ratios of employees per 1,000 residents, which explains why the City's costs are less than 75% of other cities nationally. These statistics illustrate the high productivity level of our employees in order to achieve high performance results. In addition, both city pension plans are fully funded. City administration recently conducted a Resident Satisfaction Survey of 3,000 randomly selected households achieving an overwhelming response rate of over 50%. According to the survey, 95% of the City's residents consider the city an excellent or good place to live.

A LIFESTYLE FOR EVERYONE

Comprehensive plans have been established that will continue to enhance and secure the quality of life in Sterling Heights for many years to come. These goals and objectives will serve to heighten the community's existing foundation of quality programs and services for residents. The City's annual *Strategic Plan* will guide the City in managing its capital improvement needs and equipment purchases over the next several years. With support from residents, the City of Sterling Heights continues to strive for excellence.

Most Informed City

Sterling Heights continues to implement technologies that will enhance customer service and improve efficiency:

- ▶ Sterling Heights is one of the founding members of an organization called the Michigan Intergovernmental Trade Network (MITN), which is a group of agencies that electronically notify companies of new bid opportunities. Vendors conducting business with the City now have broader access to new business opportunities throughout our region;
- ▶ The new *Lost Animal Service* is a free interactive service on the City's website to help pet owners connect with their lost animals.
- ▶ Sterling Heights is the first in the state to offer the *Water Bill Review and Payment Service* which allows residents to review historical accounting of water usage on their address, as well as having the option to pay their bill online;
- ▶ A new *Water Billing Budgeting Program*, recently made available for residential customers, is designed to help smooth the four quarterly water bills that residential customers receive each year;
- ▶ The City offers free automatic electronic mail service for residents who want up-to-date information on city activities. Residents can e-mail their request to the City to be included in the distribution of city announcements, press releases, and other city information.
- ▶ A *Job Posting E-Mail Subscription Service* provides the opportunity for those searching for employment to register at no cost for automatic electronic notifications of available job positions with the City of Sterling Heights.
- ▶ Residents can review vital voting information on the city's online *Voter Information Center* including up-to-date election results on Election Day.
- ▶ The City has utilized new disability accessible voting machines, received through grant funds, that allow a sight-impaired or disabled person the opportunity to vote with greater ease;
- ▶ Sterling Heights now provides a *Surplus Auction* link on the city's website to accommodate the need for a more efficient means of disposing surplus equipment and supplies;
- ▶ The City implemented an electronic City Council agenda packet whereby residents are able to access the complete agenda packet from their home computers;
- ▶ Sterling Heights is the first city in Michigan to introduce the *Online Permit System* that allows contractors to obtain plumbing, electrical, and mechanical permits via the city's website;
- ▶ The *Online Assessing and Tax Information System* allows residents to obtain assessment roll information on any parcel in Sterling Heights. The online Internet service provides users with the ability to gain information on school districts, administration fees, and current tax bills;
- ▶ City residents can utilize the Library's new online book newsletter service or download digital audio books to their home computers.
- ▶ Residents and non-profit groups have the opportunity to publicize activities, such as garage sales, golf outings, and lost pet notices on Sterling Heights Television (SHTV) at no charge; and
- ▶ Registration for the Parks and Recreation and Library programs can now be accomplished online.

Most Efficient City

The Sterling Heights Civic Center, with its inviting and functional campus-style layout, includes City Hall, Public Library, Police Department, 41-A District Court, Upton House, Recreation Center, Nature Center, and Senior Activity Center. The Civic Center has become the community focal point for municipal activities and cultural events with such landscaping enhancements as the placement of several sculptures throughout the complex. Residents have access to a modern, state-of-the-art City Hall with offices, meeting rooms, and a 200-seat City Council Chambers. The Employee Memorial Fountain, situated outside City Hall, was created to serve as a lasting tribute and memorial to Sterling Heights employees who have died in the line of duty. The Public Library houses a cultural center with expansive user space. With security enhancement in place, the Kenneth J. Kosnic 41-A District Court Building provides a safe and secure environment for dispute resolutions within our jurisdiction. The 128-year old Upton House is a Michigan Historical Landmark and is one of the few surviving 19th century homes in Sterling Heights. Today, the Upton House is used for meetings and is available for rental to the public. The Recreation Center houses a vast array of programs to accommodate the needs of all city residents. Serving as a model program for neighboring communities, the Special Recreation Services provides recreation and leisure activities for the disabled with the program reaching over 16,060 in attendance. The Nature Center offers visitors of all ages the opportunity to learn more about the natural world and it is expected to attract over 24,300 participants this year. The Senior Activity Center, with its recently installed bocce ball court, provides a large selection of senior programs to keep our senior residents youthful and active. In fact, the completion of the new Senior Active Life Center, a 14,135 square foot gymnasium addition, now offers a wealth of activities for the City's active senior citizens including basketball, volleyball, and a tennis-type game known as pickle ball.

In a continued effort to provide quality services within the city, the municipal phone system is equipped with direct dialing capabilities, thus allowing incoming calls to be quickly received and expedited. The City's general information phone number – 586/446-CITY (2489) – serves as the City's "help" line. Establishing a "virtual" City Hall, Sterling Heights' official website (www.sterling-heights.net) can be accessed for informative city news and events. As a matter of fact, the City's "virtual" City Hall has earned numerous distinctions including: (1) the 2003/2004 Golden Web Award from the International Association of Webmasters and Designers for excellence in design, originality, and content; (2) the honor of being named as a "Top Pick" among municipal websites by *MuniNet Guide and Review*; and (3) the Apex Award for Publication Excellence for Most Approved Website. The City's e-mail address (cityhall@sterling-heights.net) provides the opportunity to conveniently communicate with City Hall by means of e-mail transmissions. A full-color publication entitled, "Life At Its Best – Getting to Know Us", has been created to welcome new residents, as well as introduce visitors and potential residents, to the city. Sterling Heights is the first city in Macomb County to debut a municipal radio station, WPTC-1700 AM, which provides residents with round-the-clock information on community activities and emergencies, including up-to-the-minute weather bulletins.

The City's *Nice Neighbor Program* has been successful, as it has recognized more than 100 residents and business owners since its inception in 2003. This popular program honors residents and businesses who offer a helping hand to their neighbors by recognizing them at a City Council meeting as well as being publicized in the City's redesigned quarterly publication entitled *Sterling Heights Magazine*, broadcasted on SHTV, and posted on the City's website. Collectively, the City's magazine, website, radio station, SHTV, and sustained performance ratings for city services will continue to support Sterling Heights as the most information-friendly community in southeastern Michigan.

Safest Big City

The City enjoys an outstanding reputation for public safety and thus has established an Emergency Operations Center (EOC) and an alternate emergency dispatch center. Also, an Incident Command Vehicle has been placed into service to be used for emergency response by the Police, Fire, and Public Works Departments. The City of Sterling Heights Emergency Preparedness Partnership has been created consisting of representatives from the City's Emergency Services Operations Group (ESOG), private sector, and Chamber of Commerce. This group will increase communications and cooperation between the public and private sectors in response to emergencies. Supplementing the City's emergency operations staff, the Sterling Heights Citizen Corps and other volunteer groups focus on serving as a key source and outlet for preparedness-related information and education to the public. In addition, Sterling Heights participates in the *A Child Is Missing* program, a non-profit program that provides a rapid response communication network and dissemination of information. Police officers in Sterling Heights are now able to receive immediate assistance during searches for missing children, the elderly, and the disabled.

The Sterling Heights Police Department utilizes an in-car computer system that assists the officers in obtaining more information on potentially dangerous suspects. The CLEMIS (Courts and Law Enforcement Management Information Services) system links with area police departments and allows the sharing of vital information. The 800 MHz Public Safety Radio System was established for the Police, Fire, and Public Works Departments.

Along with such programs as D.A.R.E., Neighborhood Watch, Child I.D., and Crime Prevention, the Police Department annually sponsors the Citizens' Police Academy, a nationally recognized program that trains residents to take an active role in community protection. The Sterling Heights Police Department implements a summer Residential Traffic Safety Initiative by using D.A.R.E. officers to enforce traffic concerns throughout city neighborhoods. This valuable program has been very successful through enforcement action and education in addressing the residents' concerns, thus enhancing safety activities in residential areas of the city. Furthermore, to assist concerned families, the Sterling Heights Police Department has recently partnered with the web-based organization, TestMyTeen.com, to offer free drug-testing kits for residents who suspect their children may be experimenting with substance abuse.

According to FBI crime statistics, the City has continued to maintain its "Safest City in Michigan" ranking with crime decreasing overall in Sterling Heights. Continuous training for sworn personnel and police academy students contribute to the emphasis on security within Sterling Heights. Keeping crime rates down can be attributed to the city having the appropriate financial resources and a concerned public that cooperates with law enforcement.

The False Alarm Ordinance was established in an effort to further the public safety and welfare of the City's taxpayers. This program has been effective in reducing the undue burden incurred by taxpayers for unnecessary false alarm responses. Alarm users are encouraged to maintain operational reliability of the alarm system, thereby reducing and preventing the misuse of police and fire resources at taxpayer expense. In addition, the City's Snow Emergency Ordinance has been enhanced to provide increased enforcement authority requiring owners to remove vehicles from the street during a declared emergency.

Sterling Heights Fire Department is the first fire department in the world to achieve ISO 9001:2000 registration. This achievement expresses a commitment to quality that is internationally understood and accepted, thus attaining quality customer service and continual improvement. Additionally, the department has been the first in providing programs such as the administering of free flu shots to senior residents and introducing and adopting the first Private Water System Ordinance that requires private water systems to provide an annual maintenance program. Sterling Heights is below average in the number of fires and fire losses nationwide. As part of the City's fire prevention and training efforts, the Fire Department successfully completed its 10th annual Civilian Fire Academy in which residents had the opportunity to receive hands-on experience on a variety of fire safety equipment and techniques. The Fire Prevention Division of the Sterling Heights Fire Department is the first in the state to have all of its members certified by the National Association of Fire Investigators (NAFI). As a result, a high level of credibility is present at all times when Sterling Heights Inspectors work on various fire matters. The Fire Department continues to take the initiative towards offering advanced life support services, fire rescue and suppression activities, fire prevention/inspection/investigation, public education, hazardous materials response, and all forms of technical rescue.

Healthiest and Active City

With today's tight economy, more and more residents are discovering the enjoyment of everything the City's Public Library and Parks & Recreation Department have to offer. Subsequently, attendance to various city events has elevated as residents of all ages partake in an assortment of intellectual and motivational programs.

The amount of visitors to the Sterling Heights Public Library continues to increase annually with this year's number of visits totaling over 442,700, exceeding last year's number of visits by over 22,000. Furthermore, program attendance increased by over 10,700, as compared to last year, thus totaling over 36,200. This is in part due to the Library's popular reading programs and seminars (i.e. Passport Fair, National Digital TV Broadcast Conversion, and Foreclosure Prevention) capturing the interest of many residents. The Library offers compact discs, audiocassettes, computerized book and magazine catalogs, computer software for public use, and a collection of fiction books in CD format totaling well over 234,000. Recently, the Library published a local history book, *Sterling Township 1875-1968*, that contains more than 150 historic photographs from the Library's archives. An English as a Second Language (ESL) collection of videos and books has been established which compliments the Library's International Language Collection. In addition, videotapes of City Council meetings are available for residents to check out and view at their leisure. The addition of coffee and beverage machines provides visitors with a more relaxed and welcoming ambience when utilizing the facility. Computerized reference services provide access to millions of references, abstracts, and statistics. Residents can search the Suburban Library Cooperative's database of book and non-print material, along with an extensive on-line general interest magazine database from the comfort of their homes.

From terminals within the Library, residents continue to enjoy the opportunity to "surf" the Internet. This past year, online computer uses totaled more than 514,700, which is an increase of over 21,800 from last year. A book drop box is located in the median outside the Library and provides increased services to our residents. This added convenience has been well received as it better accommodates our busy residents.

A variety of athletic and instructional programs are provided to city residents through the Parks and Recreation Department. The City's Recreation Center promotes active lifestyles and enhances the coordinated youth/career age/senior exercise and health center programs. The updated *Master Parks and Facilities Conceptual Development Plans* were recently adopted to assist in guiding the development of the City's future parks and facilities. With Avis Neighborhood Park as the latest addition to the community's expansive 820-acre network of major parks and neighborhood recreation areas, the City maintains 28 developed park sites and several other undeveloped park properties dedicated to recreational purposes. City parks provide various recreational and leisure opportunities from baseball diamond complexes to children's tot lots to miles of developed walking, jogging, and bicycle riding pathways. Celebrating 33 years of musical excellence, the City's annual summer *Music in the Park Concert Series* offers a variety of free programs to satisfy the appetite of any music lover. What's more, the final phase of the Huron Clinton Metropolitan Authority's (HCMA) county hike/bike path system through the City of Sterling Heights from Riverland Drive to Van Dyke Avenue was completed, thus creating a path that is more than five miles from border to border within the city. Also, emergency markers were installed along the Clinton River Path System to assist emergency personnel in quickly locating those in need of assistance. Named *Tree City USA* annually since 1985, Sterling Heights supports policies to protect the woodlands, wetlands, and flood plains remaining in the city. In its continuing effort to preserve green space and open spaces, Sterling Heights is the only city in southeast Michigan that maintains a municipal nature preserve, the Plumbrook Forest, located at M-59 and Dequindre Road.

BEST PLACE TO RAISE A FAMILY

Sterling Heights has developed into one of Macomb County's leading cities offering a rich combination of commercial and residential life. This successful development results largely from the *Master Land Use Plan*, created by the City in the early 1970s, which provides direction for the community's growth and development. The *Master Land Use Plan* was updated recently to address maximum usage of all property within the city, including residential, multi-family, office, commercial, industrial, and public facilities and roads. The City has enjoyed a solid reputation for municipal planning and growth management. To encourage redevelopment in commercial areas, the City passed its first ever mixed-use ordinance. The commercial and industrial business environment is an exceptional mix of service, product, and technological employers, which allows Sterling Heights to enjoy the extraordinary combination of business opportunities. Employment in the city has also become more diversified in terms of new industry and trained workers. Principal employers within the city include Chrysler LLC, Ford Motor Company, Detroit News Agency, DTE Energy, Lakeside Associates, and General Dynamics.

Notwithstanding an 8% decline in housing values for the current reporting year, the City's overall property values still remain high. Sterling Heights has one of the highest property valuations of any city in the state along with Detroit and Troy and continues to provide high quality services at the lowest possible cost. In fact, the City's millage rate has decreased by 2.59 mills or by 19.4% since 1988, saving the average homeowner \$2,911. An important component of government, the Board of Ordinance Appeals has been effective in promoting and enforcing quality community appearance standards which directly affect property values. With the televising of the Board of Ordinance Appeals meetings and the efforts of the administrative Code Committee, the City continues to proactively pursue property maintenance enforcement.

Sterling Heights is a pre-retirement community attracting middle class homeowners with job security and seniority. Many Sterling Heights' homeowners are choosing to reinvest and renovate existing homes as evidenced by the 536 permits issued for residential home additions and/or improvements as compared to the 37 new housing permits issued this past year. The total number of residential permits in 2007/2008 has culminated in representing an investment of over \$9.5 million.

The combination of established neighborhoods and contemporary subdivisions in the community provides housing options ranging from modest to upscale with values over \$500,000. The typical home in Sterling Heights for 2007/2008 had a taxable value of \$84,600, which equates to a market value of \$190,000. The total tax for that home in the Utica Community School District was \$2,520, while the total tax for that same home in the Warren Consolidated School District was \$3,010. Of the total tax dollars collected, the City only received \$907 from the average homeowner for a full line of city services. It is estimated that the total average tax for 2008/2009 will be \$2,508 and \$2,994 respectively.

Proposed plans for innovative single family developments within the city include:

Maple Park	South side of 15 Mile between Ketsin & Viceroy Dr.
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Newly proposed senior developments include:

Cherrywood Senior Housing	Southeast corner of Ryan Rd. & Dobry Dr.
Doctors Inn	West side of Hayes Rd. south of Shoreline Dr.
Regency on the Lake - Sterling Heights	South side of Dobry Dr. between Ryan & Dequindre Rds.

Currently, more than 2,500 commercial and industrial businesses, including two of the top 25 "Fortune 500" companies (Chrysler LLC and Ford Motor Company) are located in Sterling Heights. The City's other major principal taxpayers include Detroit News Agency, DTE Energy, Lakeside Associates, and General Dynamics. The existing economic development and redevelopment efforts have been aggressively enhanced as Sterling Heights continues to attract and retain business and industry.

Redevelopment opportunities have been actively pursued throughout the city including commercial strip centers and industrial facilities, such as I4 Mile Road and Van Dyke Avenue, I5 Mile and Dodge Park Roads, renovation of three fire stations, and numerous other sites along Van Dyke Avenue and the industrial corridor. What's more, City Administration recently conducted a business/industry survey to ensure the City is adequately addressing local business needs. Sterling Heights continues to benefit from the expansion of current local employers, as well as additional retail and commercial developments. A number of industrial, commercial, and retail developments approved during the past year include:

Atikian Industrial	South side of 15 Mile between Van Dyke & Mound Rd.	191,476 sq. ft.
Sterling Heights Assembly Plant	Van Dyke and Metropolitan Pkwy.	67,500 sq. ft.
Sterling Ponds (Add.)	West side of Van Dyke between 14 & 15 Mile Rds.	50,893 sq. ft.
Ledds Industrial Lot 6	South side of 19 Mile west of Van Dyke	32,516 sq. ft.
Detroit News	East side of Mound Rd. between Metropolitan Pkwy. & 17 Mile Rd.	32,000 sq. ft.
M & M Gardens Nursery/Retail Center	North side of 14 Mile Rd. west of Mound Rd.	21,520 sq. ft.
Suburban Mazda (Add.)	West side of Van Dyke between 17 & 18 Mile Rds.	20,000 sq. ft.
Nissan	West side of Mound Rd. between 15 Mile and Metropolitan Pkwy.	17,222 sq. ft.
Sterling Heights Dodge	West side of Van Dyke between 17 & 18 Mile Rds.	15,650 sq. ft.
General Dynamics Land Systems (Add.)	East side of Mound Rd. between 16 & 17 Mile Rds.	10,000 sq. ft.

An Economic Development Brochure and promotional DVD have been developed as part of the City's renewed Business Recruitment and Retention Program. As a result, companies continue to invest in Sterling Heights, which is a good indication that they will remain committed to the city well into the future. The City sought and received legislative approval to create a Corridor Improvement Authority to enhance the aesthetics along major corridors, such as Van Dyke Avenue. Additionally, a multi-million dollar redevelopment plan for the North Van Dyke area and improvements for the Lakeside area are currently underway, while Troy's William Beaumont Hospital has commenced construction of its \$53 million expansion into Sterling Heights. Most recently, the City has advanced its plans for a job creation business incubator by partnering with Macomb County and Oakland University to apply for one of three new SmartZones in Michigan. If approved by the state, the business incubator will stimulate the growth of technology-based businesses and jobs within the community. In light of the current economy, this significant economic activity is excellent news for Sterling Heights as it validates that the City's Economic Development Program is working. It is this impressive mix of commercial and industrial businesses that has created the City's enviable economic base and low millage rate.

PERFORMANCE MATTERS

The City's strengths continue to be exceptional strategic planning and benchmarking, as well as strong financial management, sound finances with surpluses and significant fund balances stimulated by economic growth, moderately low tax rates, low debt levels, and strengthened wealth levels among its residents. It is with this goal of strong financial management in mind that several of this year's awards were received. Sterling Heights was recognized as being one of just three cities in Michigan to receive all three Government Finance Officers' Association (GFOA) awards: (1) For the 21st consecutive year, Sterling Heights has achieved national recognition with the *Distinguished Annual Budget Presentation Award*; (2) The Popular Annual Financial Report/City Calendar [PAFR] has earned 11 years of recognition for providing residents with an easy-to-read report on the City's economic condition for the past year; and (3) The Comprehensive Annual Financial Report [CAFR] has attained national recognition for excellence in financial reporting the past 20 years. In addition, the City once again received an "Outstanding" designation for its budget document.

The City of Sterling Heights enjoys outstanding bond ratings from the following ratings agencies: "Aa2" from Moody's, "AA+" from Fitch, and an upgrade this year to "AA+" from Standard & Poor's. We are proud to report that these ratings are among the highest in the state.

The City takes pride in providing various community functions and events throughout the year to residents who can enjoy both city services and local camaraderie. The grand event highlighted this past year was the City's popular *2008 Sterlingfest Art & Jazz Fair*. A huge success, this annual event once again provided members of the community the opportunity to take pleasure in this summer festivity of fun, crafts, and music.

The Sterling Heights City Council, in cooperation with the Sterling Heights Ethnic Community Committee, has established sister city partnerships with Tetevo, Yugoslavia (1982), Legazpi City, Philippines (1999), Cassino, Italy (2006), and Sorsogon City, Philippines (2007).

The City of Sterling Heights has received many awards and recognitions from various professional associations and municipal service organizations for innovative approaches to service delivery and quality improvements:

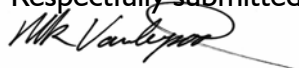
- ★ The City of Sterling Heights is among the top 100 cities named by *Best Life Magazine* as the "Best Place to Raise a Family".
- ★ Sterling Heights was rated among the "Top 100 Best Places to Live in the United States" (*Money Magazine* – June 2008).
- ★ Allstate Insurance recognized Sterling Heights as one of the safest cities in the nation when compared to 193 largest US cities in 2008 in terms of best drivers and low accident rates.
- ★ The City of Sterling Heights was selected as one of "Metropolitan Detroit's 101 Best and Brightest Companies to Work For!" by the Michigan Business and Professional Association.
- ★ According to a recent study released by American City Business Journals, Sterling Heights is ranked 7th in the nation and 2nd in Michigan on its list of the least socio-economically stressed large U.S. cities.

- ★ The City of Sterling Heights was rated an A+ and “9th Best Family Friendly Suburban City in the U.S.” by Population Connection, a Washington DC nonprofit environmental organization.
- ★ Sterling Heights is the safest large city in Michigan and the 8th safest city in the nation out of 222 cities with populations between 100,000 & 499,999 as determined by Morgan Quinto Press, 2007.
- ★ Sterling Heights City Center received national distinction as one of “America's Great Community Places and Public Spaces” by Project for Public Spaces, a national nonprofit educational organization.
- ★ Sterling Heights has been recognized by the National Weather Service as a “Storm Ready Community” because of its proactive measures in preparing for local hazardous weather.
- ★ *Ladies Home Journal* named Sterling Heights the “2nd Best Michigan City” and the “16th Best American City” for women to live and work.
- ★ *Crain's Detroit Business* listed Sterling Heights among the “hot spots” for residential development in southeast Michigan.
- ★ Sterling Heights won national recognition for its “Sidewalk Inspection Program” which uses meter readers to report hazardous sidewalk conditions.
- ★ The Michigan Economic Development Association (MEDA) gave high marks to Sterling Heights for its 3 marketing efforts (City website, *SHARP* newsletter, and custom-made economic marketing display) as part of the organizations’ annual Marketing Materials Competition (2008).
- ★ The City’s Wellness Committee was honored with the American Cancer Society’s “Five Star Investor Award” for implementing a variety of programs and services designed to promote employee health and wellness while helping to control costs of employee health care.
- ★ For the past 15 years, Sterling Heights has maintained the lowest combined water and sewer rates in Michigan for cities having over 25,000 residents.

I would like to thank the Mayor and City Council, department directors, and employees responsible for contributing to the success and sound financial position of the City. Finance and Budget Director Brian Baker, City Treasurer James Buhlinger, City Controller Leslie Reinhart, Financial Services Manager Rick Sanborn, and staff are especially recognized for their teamwork, cooperation, and commitment to the principles of fiscal management and propriety. Special recognition is also extended to Mary Jo Dombrowski, Management Services Specialist, for her assistance with this report.

The City's employees are working together to preserve and enhance our community. Our mission is to make Sterling Heights the nation's most livable and best-managed city by providing courteous and quality services through teamwork, innovation, and continually striving for excellence on behalf of all.

Respectfully submitted,



Mark D. Vanderpool
City Manager



CITY COUNCIL
Mayor Richard J. Notte
Mayor Pro Tem Deanna Koski
Councilman Richard L. Bracci
Councilwoman Yvonne D. Kniaz
Councilman Joseph V. Romano
Councilwoman Maria G. Schmidt
Councilwoman Barbara A. Ziarko
CITY MANAGER
Mark D. Vanderpool

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October 27, 2008

Honorable Mayor, City Council, and Citizens
of the City of Sterling Heights
40555 Utica Road
P.O. Box 8009
Sterling Heights, MI 48311-8009

In compliance with state law, this report was prepared in accordance with generally accepted accounting principles (GAAP) and regulations set forth by the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing, the Treasurer of the State of Michigan, the City Charter, and the Government Finance Officers Association. Pursuant to these requirements, the Office of Financial Services is pleased to submit this Comprehensive Annual Financial Report of the City of Sterling Heights for the fiscal year ended June 30, 2008.

The accuracy and reliability of the accounting system is dependent on adequate internal control. Internal control is a plan of organization under which employees' duties are so arranged and records and procedures so designed as to make it possible to exercise accounting control over assets, liabilities, revenues, and expenditures. To provide a reasonable basis for making the following representation, management of the City of Sterling Heights has established a comprehensive internal control framework that is designed both to protect the City's assets from losses, theft, or misuse and to compile sufficient reliable information for the preparations of the enclosed financial statements in conformity with GAAP. Since the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. Therefore, the accuracy, completeness, and fairness of the financial data herein, including all disclosures, rests with the City's management, who assumes full responsibility for the information presented in this report and asserts that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

In 2004, the Governmental Accounting Standards Board issued Statement No. 43 (GASB No. 43), *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45 (GASB No. 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. These statements establish accounting standards for financial reporting of postemployment benefits other than pensions. These benefits may include but are not limited to health care, life insurance, and dental insurance for retirees. The City of Sterling Heights has elected to implement GASB No. 43 effective with the financial statements contained in this report. GASB No. 45 will be implemented with fiscal 2009 financial statements in compliance with the guidance provided by the Governmental Accounting Standards Board.

In 2007, the Governmental Accounting Standards Board issued Statement No. 50 (GASB No. 50), *Pension Disclosures*. GASB No. 50 amends the footnote disclosure and required supplementary information standards of GASB No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform to changes adopted in GASB No. 43 and No. 45. The City of Sterling Heights has implemented GASB No. 50 with the financial statements contained in this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany these basic financial statements in the form of a management's discussion and analysis (MD&A) narrative. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Sterling Heights' MD&A can be found immediately following the report of the independent auditors.

Financial data presented are designed to provide the reader with information to assist in determining both the long-term fiscal health of the City and the City's ability to meet obligations on a short-term basis. The financial statements contained in this report are designed to fairly set forth the financial position and results of operations of the City and include all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs.

Independent Audit

The City Charter and state laws require an annual audit of the financial records and transactions of the City by a firm of independent licensed certified public accountants. This requirement has been complied with and the City's financial statements have received an "unqualified opinion" from Plante & Moran, PLLC, certified public accountants. An unqualified opinion is the best opinion that an organization can receive on its financial statements. It indicates that the auditor's examination has disclosed no conditions that cause them to believe that the financial statements are not fairly stated in all material respects.

In addition, during the current year, an audit was performed in accordance with the requirements of the Single Audit Act Amendments of 1996 (P.L. 104-156). The auditor's reports related specifically to the single audit are issued under separate cover.

Reporting Entity and Services

As required by GAAP, these financial statements present the City of Sterling Heights and related component units. The individual component units are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

This report includes all funds of the City and encompasses a full range of municipal services including administrative, public information, district court, police, fire, code enforcement, building, development and planning, engineering, public works, parks and recreation, library, and water and sewer services.

Report Organization

This Comprehensive Annual Financial Report was prepared to meet the needs of a broad spectrum of financial statement readers and is divided into the following major sections:

Introductory Section - This section introduces the reader to the City of Sterling Heights and to this report. Included are a letter from the City Manager highlighting economic conditions and major City initiatives, this transmittal letter with continuing disclosure reporting enhancements, the City's organizational chart, a list of principal officials, and a fund organization chart.

Financial Section/Basic Financial Statements - The independent auditor's report, management's discussion and analysis letter, government-wide financial statements, combined fund financial statements, component unit financial statements, and notes to the financial statements are included here. These are the City's basic financial statements and provide an overview for readers who require less detailed information than is contained in the balance of this report.

Financial Section/Required Supplemental Information - This section contains a more detailed comparative analysis of actual revenues and expenditures versus the 2007/2008 budgets for the General, Major Roads, and Road Bond Debt Retirement Funds. Additionally, there are schedules showing the funding progress of the General Employees and the Police and Fire Defined Benefit Retirement Systems as well as notes to the required supplemental information.

Financial Section/Other Financial and Supplemental Information - This section contains combining statements for all of the City's nonmajor governmental, fiduciary, and agency funds as well as budget to actual comparative statements for all nonmajor governmental and the major Capital Projects Funds.

Statistical and Continuing Disclosure Section - Although this section contains substantial financial data, these schedules differ from financial statements in that they present some non-accounting data, cover more than the current year, and are designed to reflect social and economic data, financial trends, and the fiscal capabilities of the City.

The continuing disclosure schedules in this section reflect information in accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission and as set forth in the Continuing Disclosure Certificates for issued debt.

Accounting System and Budgetary Controls

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, the City's accounting system is organized and operated on a "fund basis." Each fund is a distinct, self-balancing accounting entity. A list of funds used by Sterling Heights is found later in this section and a discussion of the nature of each fund type is found in Note I to the basic financial statements.

An annual budget is adopted in accordance with the legal requirements set forth in the Uniform Budgeting Act, State of Michigan P.A. 621 of 1978. Also required under this Act is a budgetary control to ensure that expenditures do not exceed appropriations. The City maintains this control through the use of an encumbrance system. As purchase orders are issued, corresponding amounts of appropriations are reserved by the use of encumbrances so that appropriations are not overspent. Budget transfers may be made within a budgetary center with approval of the Office of City Management. The City Council approves necessary transfers between budgetary centers or from fund balance periodically. In addition, the Office of City Management monitors department budgets on a monthly basis. Department directors and office managers must justify variances.

General Fund

Since the General Fund receives all City revenues not designated for specific use by state statutes or City Charter, and accounts for most of the services provided to residents, the following is provided to give the financial statement reader a more detailed analysis of the activity within the General Fund.

Revenues and Other Financing Sources	Amount	Percent of Total	Increase (Decrease) from June 30, 2007
Property taxes	\$ 56,266,066	65.4	\$ 2,828,970
Fees and permits	1,352,594	1.6	(431,562)
Federal sources	236,215	0.3	129,396
State sources	11,426,846	13.3	(243,138)
Fines and forfeitures	2,755,701	3.2	192,181
Charges for services	7,988,183	9.3	(50,418)
Interest income	1,974,515	2.3	(228,686)
Rental income	1,727,929	2.0	284,278
Cable revenue	1,671,094	1.9	143,106
Other	595,641	0.7	19,236
Subtotal	85,994,784	99.9	2,643,363
Transfers from other funds	96,371	0.1	4,591
Total	<u>\$ 86,091,155</u>	<u>100.0</u>	<u>\$ 2,647,954</u>

Overall General Fund revenues increased 3.2 percent over the prior year. Property taxes in the General Fund increased by 5.3 percent due to a 2.4 percent increase in the combined operating and refuse millage (which were offset by a similar reduction in debt and the Police and Fire Retirement System millage) and a 3.7 percent inflationary valuation adjustment for existing property. Fees and permits revenue was down 24.2 percent due to continued reduction in building and development activity in the City. Federal sources increased by 121.1 percent due to an increase in operating grant dollars related to homeland security training. State sources decreased by approximately 2.0 percent due to a drop in state shared revenues. Fines and forfeitures revenue increased by 7.5 percent due to an increase in ordinance fines and other district court related fees. Interest income decreased 10.4 percent due to decreased market rates. Rental income increased by 19.7 percent due to increased tower rental revenue as well as equipment rental as the result of various severe weather events throughout fiscal 2008. Cable franchise revenues increased 9.4 percent due to the addition of a third provider and an overall increase in subscribers. Other income increased 3.3 percent due to increased donations related to public safety and recreation and culture.

Expenditures and Other Financing Uses	Amount	Percent of Total	Increase (Decrease) from June 30, 2007
General government:			
City administration	\$ 8,590,120	9.9	\$ 460,607
Community relations	1,598,334	1.8	138,910
Information technology*	1,055,564	1.2	82,343
41A District Court	2,974,001	3.4	126,890
Public safety:			
Police department	28,390,334	32.8	1,731,561
Fire department	15,845,156	18.3	1,017,178
Public works:			
City development	3,051,154	3.5	185,429
Public works	8,545,276	9.9	542,854
Refuse collection	4,206,384	4.9	116,956
Recreation and culture:			
Parks and recreation	2,554,032	3.0	125,765
Public library	2,804,793	3.2	52,563
General expenditures	<u>2,931,292</u>	<u>3.4</u>	<u>(767,546)</u>
Subtotal	82,546,440	95.4	3,813,510
Transfers to other funds	<u>3,969,700</u>	<u>4.6</u>	<u>(72,920)</u>
Total	<u>\$ 86,516,140</u>	<u>100.0</u>	<u>\$ 3,740,590</u>

*Starting in fiscal 2008 Information Technology moved from the Community Relations budget to the City Development budget.

Total General Fund expenditures increased by approximately 4.5 percent over the prior year. Major factors in the increase over the prior year were a 3.3 percent increase in compensation in

compliance with existing labor agreements and a 44.5 percent increase in the funding for retiree health care in compliance with the City's plan to meet the actuarial funding requirements for the retiree health care program on an annual basis going forward. The primary offsets to these increases were a 31.7 percent decrease in liability insurance, a 35.5 percent decrease in the required contribution to the Police and Fire Retirement System, a 2.6 percent decrease in operating supplies and a 1.8 percent decrease in transfers to other funds.

Special Revenue Funds

Special Revenue Funds are so classified because some authority requires special legal restrictions and accounting procedures. The Special Revenue Funds of the City include:

Major Roads - Gas and weight tax revenues received in this fund are used for construction, maintenance, and other authorized operations pertaining to all streets classified as "major" within the City. Total revenues and other sources increased during the current year by approximately \$2.1 million, primarily due to the receipt of a reimbursement for a prior year road construction project under a state pass through of federal grant funding, which was offset by a \$0.3 million decrease in transfers from the General Fund. Total expenditures and other uses increased by \$1.6 million due to a \$0.3 million increase in road maintenance, a \$0.6 million increase in transfers to other funds and an increase in capital outlay of \$0.7 million.

Local Roads - This fund provides for the construction, maintenance, and snow and ice control for streets classified as "local" within the City. Total revenue and other sources were basically unchanged from the prior fiscal year (\$3.73 million versus \$3.70 million). Total expenditures and other uses decreased by \$0.2 million due to a planned decrease in capital outlay of \$0.4 million offset by an increase in road maintenance and snow and ice control expenditures of \$0.2 million.

Budget Stabilization Fund - In 1999, the City Council created a Budget Stabilization Fund to serve as a rainy day fund for the purpose of preventing future deficits, revenue shortfalls, reductions in services, or to cover expenditures arising from natural disasters. During fiscal 2008, no additional money was added to this fund due to conservative estimates of General Fund revenues. The balance available in the fund remains at \$750,000 which has been budgeted for transfer to the General Fund in fiscal 2009.

Land and Water Conservation - This fund is used to reflect all activities related to the acquisition and development of parks. Revenue for this fund comes from a state grant, transfers in and interest income (\$0.1 million). Projects accounted for in this fund include park improvements and capital outlay for recreational facilities and equipment (\$0.1 million).

Public Safety Forfeiture - This fund is used to reflect all activities related to federal, state, and local public safety forfeiture programs. Revenues are recognized when property used in the commission of a criminal act has been both seized and forfeited to the applicable police agency. Expenditures are restricted to law enforcement and/or drug enforcement activities depending on the program from which the revenue was generated. Approximately \$0.07 million in federal forfeitures and \$0.27 million in state and local forfeitures were recognized in 2008. These resources, along with \$0.33 million in fund balance, were used to provide the Public Safety staff with training, operational supplies, and capital equipment totaling approximately \$0.67 million.

Community Development Block Grant - The City of Sterling Heights is an entitlement community under the federally administered Community Development Block Grant Program. As such, the City receives a proportionate share of monies appropriated by Congress. The funds can only be used for activities that are directed to fulfilling specific objectives as reflected in the current Housing and Community Development Act. The major activities in this fund include improvements to local park(s) including playground equipment, Senior Minor Home Chore, and various Repair Program ventures. In the current fiscal year, both the revenues and expenditures decreased by \$0.56 million due to the completion of the Senior Active Life Center in the prior year.

Capital Projects Funds

General Improvements Fund - This fund includes all major capital improvement projects of the City other than special assessment, road, and Enterprise Fund projects. A transfer from the General Fund of \$1.5 million, bond proceeds of \$5.0 million, federal and state sources of almost \$0.2 million, and other revenues of \$0.8 million, funded \$3.5 million of capital expenditures. Included in these costs were renovations to various City fire stations, sidewalk repairs and replacement, improvements and construction related to various storm drains, purchase of capital equipment and vehicles for various City departments, and technology improvements within various City buildings. The \$4.0 million of revenues in excess of expenditures will be used to complete the renovations of three fire stations and other ongoing capital projects.

Road Bond Construction Fund - This fund was established to account for road-related construction activity financed with bond proceeds. Total revenues and other sources of \$0.3 million along with \$0.6 million of fund balance were used to finance the completion of two prior year road reconstruction projects and to start a major redevelopment project in the Lakeside Mall area.

Enterprise Fund

For the fiscal year ended June 30, 2008, water and sewer operating revenue increased by 8.1 percent due to a slight increase in the volume of water sold (4.9 percent) along with a rate increase of approximately 7.9 percent for water and 6.9 percent for sewer. Operating expenses increased \$2.5 million (8.2 percent). The leading factor contributing to increased expenses was a \$1.2 million increase in the “lookback charge” received from the City of Detroit Water & Sewerage Department, as well as, other factors such as an 8.8 percent increase in the cost of water purchased, and sewerage increases of 7.8 percent in the fixed rate and 1.3 percent in the variable rate. Net nonoperating revenues decreased \$0.5 million (12.5 percent) due to a decrease in tap fees and frontage charges (\$0.8 million) as well as a decrease in interest income (\$0.3 million), which was offset by an increase in contributions of water lines from developers (\$0.6 million). As a result, the total net assets in the Enterprise Fund decreased to just over \$172.6 million.

	Year Ended June 30		Increase
	2008	2007	(Decrease)
Operating revenues	\$ 27,456,965	\$ 25,404,755	\$ 2,052,210
Operating expenses	<u>32,784,120</u>	<u>30,290,386</u>	<u>2,493,734</u>
Operating loss	(5,327,155)	(4,885,631)	(441,524)
Nonoperating revenues - Net	<u>3,916,612</u>	<u>4,474,329</u>	<u>(557,717)</u>
Change in net assets	<u>\$ (1,410,543)</u>	<u>\$ (411,302)</u>	<u>\$ (999,241)</u>
Number of customers:			
Residential	35,048	35,021	27
Commercial/Industrial	4,539	4,477	62
Approximate number of cubic feet sold (000s)	827,893	789,033	38,860

Internal Service Fund

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit on a cost-reimbursement basis.

Self-insurance Fund - The Self-insurance Fund was established in 1986 and is used to record the insurance activities related to liability and property claims, active employee health care, workers' compensation, and short-term disability, which are funded by the City. Revenues in the Self-insurance Fund are the result of charges to the General and Water and Sewer Funds based on underwriters' estimates or the City's estimates using historical data. Expenses in this fund include reinsurance charges, administrative fees, claims expense, and provisions for both reported and unreported claims. The provision for incurred but not reported claims (IBNR) is \$1.8 million and is reported as part of the provisions for uninsured losses and liabilities. There was a decrease in total net assets for the year of \$0.03 million due to operating and interest income of \$1.48 million combined, which was offset by a transfer of \$1.51 million to the Settlement Bond Debt Service Fund for the purpose of covering the annual debt service for fiscal 2008. As a result, unrestricted net assets decreased to just under \$16.2 million at June 30, 2008, which continues to provide a reserve for future self-insurance needs.

Fiduciary Funds

Fiduciary Funds are established to account for assets held by the governmental unit in a trustee capacity or as an agent for individuals, private organizations, and other governmental units and/or funds. The Fiduciary Funds of the City include:

Pension Trust - General Employees' Retirement System - The actuarially determined value of assets available for benefits in the General Employees' Retirement System on December 31, 2007 (the date of the most recent actuarial valuation) was \$127.7 million. A five-member board of trustees manages this fund under the provisions of the City of Sterling Heights' defined benefit pension ordinance as amended by various labor agreements. This pension fund was 125.2 percent funded as of December 31, 2007.

Pension Trust - Police and Fire Retirement System - The actuarially determined value of assets available for benefits as of December 31, 2007 (the date of the most recent actuarial valuation) was \$212.4 million. A five-member board of trustees manages this system under the provisions of P.A. 345 as amended by various labor agreements. This pension fund was 124.8 percent funded as of December 31, 2007. A separate tax was levied to provide for the City's \$1,707,910 police and fire pension contribution for the fiscal year ended June 30, 2008.

Retiree Medical Benefits Fund - The Retiree Medical Benefits Fund was established in fiscal 1989 to account for medical benefits provided to employees during retirement. In fiscal 2002, the City Council adopted the provisions of Michigan Public Act 149 of 2001, establishing the Retirees' Medical Benefits Fund as a trust, and the fund was reclassified from an Internal Service Fund to a Fiduciary Fund. Revenues reported this year were based on budgeted contribution rates as a percent of budgeted payroll for all covered employees. Based on these rates the City contributed \$10.1 million to the trust, which was just under the actuarially recommended amount of \$10.8 million (based on rates of 16.0 percent and 26.0 percent of annual covered payroll for general employees and police and fire employees, respectively). The fiscal 2009 budget contains a planned contribution equal to the recommended amount. The deductions of \$5.6 million reflected in this fund relate to medical benefit payments for all eligible retirees and provisions for incurred but not reported claims of \$0.6 million. Net assets at June 30, 2008 were \$18.0 million.

Agency Funds - The City operates two Agency Funds with total assets of \$3.4 million as of June 30, 2008. These include funds for tax collections and a General Agency Fund used primarily for the deposit of various developer fees.

Component Units

Component units, as defined by GASB No. 14, are so classified due to their relationship with the primary government relative to financial accountability of the reporting entity. City component units include:

Economic Development Corporation - The City of Sterling Heights Economic Development Corporation is organized pursuant to Act 338 of the Public Acts of 1974. Its general purpose is to assist and retain local industries and commercial enterprise in order to strengthen and revitalize the economy of the City. The core Economic Development Corporation membership is a nine-member board with up to two additional members, all of which are appointed by the City Council.

Brownfield Redevelopment Authority - This fund was established in fiscal 2001 to account for projects that will improve environmentally distressed areas within the City. The activity within this fund during the current year was to reimburse eligible cost incurred by a local developer in cleaning up a contaminated site located on Sims Road within the city.

Corridor Improvement Authority - The Sterling Heights Corridor Improvement Authority was created during fiscal 2007 in accordance with Act 280 of the Public Acts of 2005. Its general purpose is to facilitate the beautification of public right-of-way and encourage new development/redevelopment of commercial and residential property along the Van Dyke corridor between 18-1/2 Mile Road and the northern city limits. Two major programs during fiscal 2008 were the development of a façade improvement program and designed streetscapes as part of road improvements within the corridor.

Cash Management

The City complies with Public Act 20 of 1943 (as amended) of the State of Michigan in its cash management activities. Idle cash in all funds, exclusive of the pension systems and the Retiree Medical Benefits Trust Fund, are invested in certificates of deposit, governmental obligations, pooled accounts, commercial paper, and bank trust accounts. Interest income for the governmental and proprietary funds for the current fiscal year is \$4.5 million, a decrease of \$0.7 million or 12.8 percent below the previous fiscal year.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. In the state of Michigan, municipalities are not required to insure or collateralize bank deposits; however, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

The City has an investment committee and an investment policy. The Investment Committee, which consists of the city treasurer, finance and budget director, financial services manager, and controller, meets quarterly to evaluate the City's investment activity and to assure that all investments held by the City are within the guidelines of the policy adopted by the City Council. In addition, the City Council receives monthly summary reports as well as an annual report on the results of investment activity and holdings within the portfolio.

Tax Rate Limitations

The City Charter provides tax rate limitations for general operations. In addition, the City may levy taxes in excess of the Charter limitation for refuse and police and fire pension requirements pursuant to state law.

Purpose	Authority	Rate (per \$1,000 of State Equalized Valuation)
General Operating	City Charter	\$12.00 *
Refuse Collection and Disposal	Act 298, P.A. of Michigan 1917, as amended	3.00
Police and Fire Pension Requirements	Act 345, P.A. of Michigan 1937, as amended	Amount required to make contribution

** The maximum permitted rate per the Headlee amendment of the Michigan Constitution for fiscal 2008 was unchanged at \$10.8395.*

In addition, Article IX, Section 6 of the Michigan Constitution permits the City to levy a millage in excess of the above for (a) all debt service on tax-supported issues that have been approved by the voters for which the City has pledged its full faith and credit, and (b) operating purposes for a specified period of time provided that said increase is approved by a majority of the qualified electors of the local unit.

Risk Management

The City's risk management program is designed to protect financial and human resources in the most cost-effective manner possible. This is accomplished through exposure identification, risk evaluation, risk control, risk funding, and risk management administration. For Sterling Heights, there are six areas of risk management that receive the majority of attention: loss control and safety, property, liability, workers' compensation, employee benefits, and self-insurance administration.

Although the City self-insures many risks, excess insurance is purchased to protect against the financial effects of a catastrophic loss. Liability excess coverage provides up to \$15,000,000 of limits. Property coverage insures \$115.3 million of property values. All buildings and contents are insured at replacement cost value. Liability and property self-insured retentions are \$500,000 and \$50,000, respectively. Excess insurance of workers' compensation is purchased at statutory levels, with a \$150,000 per occurrence self-insured retention. Reinsurance for the self-insured health care risk is purchased to limit City liability to \$200,000 per employee/contract per year. Health care expenditures account for 72.0 percent of all self-insurance expenditures (excluding transfer to the Settlement Bonds Debt Service Fund) during fiscal 2008. The short-term disability risk is fully self-insured and self-administered. Through a combination of self-insurance and insurance, the City has been able to provide the financial resources required to manage the various risks associated with a large city.

Prospects for the Future

The City remains proactive and strategically plans well into the future. Annually, the staff prepares a comprehensive capital-planning document called the "Municipal Improvement Plan." This document captures and explains all planned projects and improvements extending five years into the future. Additionally, estimated expenditures, funding sources, chronological event sequences, associated projects, and their costs supplement this information. The Municipal Improvement Plan provides the financial planning focus for progress into the future for the community.

Economic Outlook - The City of Sterling Heights is a major manufacturing center located in Southeast Michigan, 30 miles north of Detroit. The state of Michigan has lost nearly 500,000 manufacturing jobs in the last decade and the unemployment rate is currently at the highest level since 1991. The City is not immune to these losses. However, located in Sterling Heights are four major Original Equipment Manufacturing (OEM) plants. Chrysler Stamping and Assembly, as well as Ford Transmission and Axle, are located within the city limits. Since 2005, Ford and Chrysler have invested nearly \$600 million of upgrades to their facilities. As a result of the continued investment and platforms launched at these facilities, the City has seen a healthy supply chain market locate here creating new jobs. Many of these suppliers are foreign customers to the OEMs. Faurecia (France), AGS Automotive (Canada), Getrag Transmission (Germany), Magna Industrial (Canada), Miba Hydramechanica (Austria), KUKA Robotics (Germany), Mitsubishi (Japan) and Trident Tool (Australia) have invested in our community and created nearly 900 jobs. In 2007-2008 the City of Sterling Heights tax abatement program has facilitated \$92 million of new investment and 700 new jobs including some of the investments from the aforementioned companies. Since 1998, the tax abatement program has facilitated nearly \$2 billion in new investments and the creation of 3,000 jobs.

The defense sector continues to grow in southeast Michigan and particularly in Sterling Heights. General Dynamic Land Systems' (GDLS) Corporate Engineering and Technical Center is located within city boundaries. GDLS employs nearly 3,000 people in three different locations. The staff is research and development oriented, with many professionals having advanced PhD and other scientific degrees. GDLS has continued to add personnel and forecasts an additional 600 employees in Sterling Heights over the next four years as part of the Future Combat Systems program. BAE Systems, the third largest defense contractor in the world, is expanding their Sterling Heights operation. BAE will invest \$40 million to construct a state-of-the-art research and development facility and hire 500 new research and development, engineering, and technical staff. BAE's expansion highlights that Sterling Heights is becoming home to the variety of defense research and development activity of the future. Additionally, TACOM is located in Warren, just south of Sterling Heights. TACOM is the Army's main ground system development center in the United States. TACOM will add 1,100 additional research and development staff to manage the development of ground systems vehicles. The continued growth of TACOM will result in more defense contractor activity to our area. Sterling Heights expects more activity in this area along with the other defense companies that are currently located which currently includes GDLS, BAE, SAIC, ICRC and VSE.

The recent investments announced by the automotive OEM's and prime defense contractors will provide stability and opportunity to our local economy. Unemployment levels have varied from 5.3 percent to 6.7 percent in 2008, the variation results in the seasonal shut downs that occur at OEM plants; invariably the rate is lower than the State's rate of 8.9 percent (August) and Macomb County's rate of 8.4 percent (2008 average). The City's industrial vacancy rate remains at 6 percent while Macomb Count and Metro Detroit averages hover near 12 percent (CB Richard Ellis). As a result the retail vacancy rate has performed steadily at 7 percent while Macomb County's rate has average 13 percent.

Legislation - Legislation has and will continue to impact the City of Sterling Heights well into the future. Through its involvement with the Michigan Government Finance Officers Association and the Michigan Municipal League, the City is actively involved in legislative proposals affecting the financial activities of municipalities.

Personal Property Tax Issues – There continues to be seven appeals outstanding for Visteon Corporation involving approximately \$136,300 in city taxes without statutory interest. The State Tax Commission (STC) ruled in the City's favor in the first three cases on September 26, 2006. Visteon appealed the STC decision to the Michigan Tax Tribunal (MTT) in November 2006, and in December 2006 filed four additional appeals. On May 11, 2007 Visteon's attorney filed a Motion for Summary Disposition and on May 29, 2007 the City responded. As of the date of this report, the MTT has not ruled on these motions. The amount of city tax revenue that would be subject to refund should the STC judgments be overturned would be approximately \$29,000, \$35,000 and \$63,000 (without interest) for 2003, 2004, and 2005 for the three cases, respectively. City tax revenue at risk with the four remaining cases approximates \$9,300 for 2004 and 2005 combined (without interest).

On May 31, 2007, attorneys for the Chrysler LLC filed appeals on all of the personal property accounts located in the City, seeking a reduction of 30 percent in the value of all of these properties. The City has settled all of the MTT personal property appeals filed by Chrysler, LLC. As a result, there will be no additional reduction in the value of personal property assets held by Chrysler above and beyond the State mandated depreciation tables for personal property assets from this tax year forward.

In addition to the above there was only one MTT appeal filed in 2008 involving a personal property parcel. The amount of city tax revenue that is under contention from this appeal approximates \$12,600 annually.

Technology Plan - Due to the high level of dependence on technology, the City continues to take the necessary actions to maximize the available resources to provide all municipal employees with the ability to work more efficiently. The City is now in the third year of a recently updated five-year plan. The multi-year plan addresses every aspect of future technology needs across the organization. Several major projects identified in the strategic plan were completed in the 2008 fiscal year including:

- Acquisition of 30 laptop computers for police detectives
- Replacement of three file servers in Information Technology
- Acquisition and installation of a customer service/complaint tracking system in Community Relations
- Replacement of 119 personal computers for Police department, Parks and Recreation department and Emergency Management
- Development of the employee intranet website
- Purchase of an automatic water meter reading system for billing business accounts

Future information technology plans include a document imaging and management system, development of wireless applications, a storage area network, and continued ongoing replacement of department personal computers and file servers. Attention will be given to upgrading the City's network hardware to allow for future software applications and to further speed the flow of information between departments.

Major Projects - This past year, the City completed a number of major capital improvement projects including:

- Resurfacing of Red Run and Moravian Drive from I 4 Mile Road to Schoenherr
- Resurfacing Fox Hill Drive from Mound to Carpathia
- Designing of the future I 9 Mile Road widening from Ryan Road to Dequindre Road
- Completion of numerous neighborhood road improvements
- Started improvements of three City fire stations and the Lakeside Shopping Center district

Financial Strength - On a budgetary basis, the General Fund revenues have slightly exceeded expenditures for the past nine of 10 years. As a whole, the City of Sterling Heights is in a better position to withstand any continued economic stress than most Michigan municipalities. For fiscal 2008-2009, the operating budget contains a total millage of 10.7858 (the second lowest rate of any of the comparable full-service communities within 20 miles of the City). The current undesignated, unreserved fund balance approximates 15 percent of the 2008-2009 fiscal year General Fund budget. The 9.1777 operating levy is well below the 12 mill limitation in the City Charter and the 10.8395 Headlee maximum allowable levy. The creation and prior year funding of a Budget Stabilization Fund places an emphasis on future planning and maintaining a visionary perspective on the City's financial strength and soundness.

Conservative revenue, investment, debt, and reserve budget policies are in place to maintain a controlled spending approach that the residents of Sterling Heights have come to expect from their city government. We believe our continued financial integrity and stability, as well as the vision and forthright perspective of our elected leaders and administration, will enable Sterling Heights to weather uncertainties of the future.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sterling Heights, Michigan for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Sterling Heights, Michigan has received a Certificate of Achievement for the last 20 consecutive years (fiscal years 1988-2007). We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this Comprehensive Annual Financial Report was made possible by the efficient and dedicated service of the entire staff of the Office of Financial Services. We wish to express our sincere appreciation to each of them and to various employees from other offices for their cooperation and assistance. Appreciation is also expressed to the City Council and City Manager for their consistent support throughout the year in matters pertaining to the financial affairs of the City.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Brian S. Baker". The signature is fluid and cursive, with the first name "Brian" and last name "Baker" clearly distinguishable.

Brian S. Baker
Finance & Budget Director

A handwritten signature in dark ink, appearing to read "Leslie D. Reinhart". The signature is cursive, with the first name "Leslie" and last name "Reinhart" clearly distinguishable.

Leslie D. Reinhart, CPA
Controller

A handwritten signature in dark ink, appearing to read "Rick J. Sanborn". The signature is cursive, with the first name "Rick" and last name "Sanborn" clearly distinguishable.

Rick J. Sanborn, CPA
Financial Services Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sterling Heights
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

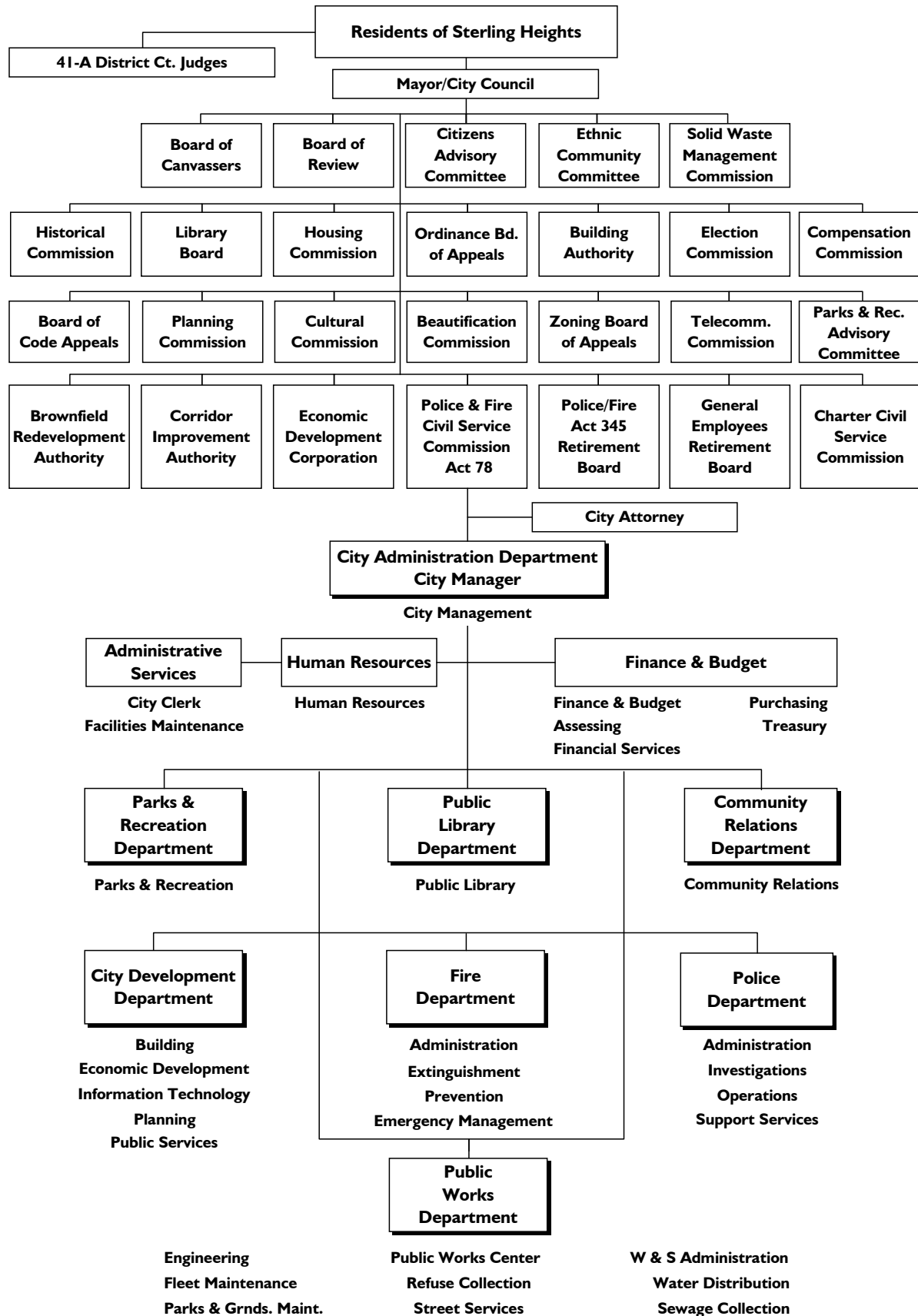
President

Jeffrey R. Emer

Executive Director

City of Sterling Heights, Michigan

City Organizational Chart



City of Sterling Heights, Michigan

List of Principal Officials

Title	Name
City Manager	Mark D. Vanderpool
Broadcast Services Manager	Michael Crimmins
City Assessor	Matthew J. Schmidt
City Attorney	Jeffery A. Bahorski
City Clerk/Assistant City Manager	Walter C. Blessed
City Development Director/Assistant City Manager	Michael G. Bartholomew
City Engineer	Brent S. Bashaw
City Planner	Donald A. Mende
City Treasurer	James P. Buhlinger
Communications Manager	Patricia Brockway
Community Relations Director	Steve Guitar
Controller	Leslie D. Reinhart
Economic Development Manager	Lukas Bonner
Emergency Manager	Nicole Miller
Environmental Services Manager	Daniel J. Sears
Facilities Maintenance Manager	Gary Schamehorn
Finance and Budget Director	Brian S. Baker
Financial Services Manager	Rick J. Sanborn
Fire Chief	Stephen Kovalcik
Human Resources Director	Dawn L. Demick
Information Technology Manager	Lois J. Gates
Interim Parks and Recreation Director	Michael G. Bartholomeu
Network Administrator	Steve Deon
Police Chief	Michael Reese
Public Library Director	Tammy L. Turgeon
Public Services Manager	Denice A. Gerstenberg
Public Works Director	Salvatore Conigliaro
Purchasing Manager	Janice L. Sierzenga
Risk Manager	Mark Carufel

City of Sterling Heights, Michigan

Fund Organization Chart

Governmental Funds

General *	Special Revenue
	Major Roads *
	Budget Stabilization
	Local Roads
	Land and Water Conservation
	Public Safety Forfeiture
	Community Development Block Grant (CDBG)
Debt Service	Capital Projects
General Drain	General Improvements *
Voted Tax General Obligation	Road Bond Construction *
Settlement Bond	
Road Bond Debt Retirement*	
Limited Tax General Obligation	

Proprietary Funds

Enterprise	Internal Service
Water and Sewer *	Self-insurance

Fiduciary Funds

Trust	Agency
General Employees' Retirement System	Tax Collections
Police and Fire Retirement System	General Agency
Retiree Medical Benefits	

Component Units

Economic Development Corporation
Brownfield Redevelopment Authority
Corridor Improvement Authority

* Major funds under GASB 34

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit information, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Sterling Heights, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit information, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sterling Heights, Michigan's basic financial statements. The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, statistical, and continuing disclosure sections, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures, and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis and retirement systems schedules of funding progress, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical and continuing disclosure sections have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2008 on our consideration of the City of Sterling Heights's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 27, 2008

City of Sterling Heights, Michigan

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of narratives and financial statements. This narrative should be considered in conjunction with the additional information presented in the letter of transmittal found on pages xii-xxvii and is intended to serve as an introduction to the City of Sterling Heights' basic financial statements. The basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary and statistical information, as well as continuing disclosure information related to bonded debt issued by the City of Sterling Heights in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of the City of Sterling Heights' finances, in a manner similar to a private sector business. The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Sterling Heights is improving or deteriorating. The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. As a result, revenues and expenses are reported in this statement for some items that only result in cash flows in future fiscal periods (e.g., uncollected receivables and unused vacation leave).

Both of the government-wide statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover costs from user fees and charges for services (business-type activities). The governmental activities include general government, 41A District Court, public safety, public works, and recreation and culture. The business-type activities include the water and sewer operation of the City. The government-wide financial statements include not only the City of Sterling Heights (known as the primary government), but also the legally separate Economic Development Corporation, Brownfield Redevelopment Authority, and Corridor Improvement Authority for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the City. Although the Sterling Heights Building Authority is also legally separate, it functions as a department of the City and therefore has been included as an integral part of the primary government.

Fund Financial Statements (which report the City's operation in more detail than the government-wide financial statements) follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities and to demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower, it is useful to compare this information with similar information presented for governmental activities in the government-wide financial statements. This comparison may allow the readers to better understand the long-term impact of the City's short-term financing decisions. Both the balance sheet and the statement of revenues, expenditures, and changes in fund balances for the governmental funds provide a reconciliation to facilitate this comparison between governmental funds and government activities.

The City of Sterling Heights maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Roads Fund, Road Bond Debt Retirement, General Improvement Fund, and Road Bond Construction Fund, all of which are considered to be major funds. Data for the other nine governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Sterling Heights adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for all the governmental funds to demonstrate budgetary compliance.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions presented in the business-type activities in the government-wide financial statements. The City of Sterling Heights uses an Enterprise Fund to account for its water and sewer operation. This fund is considered a major fund of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among various functions. The City of Sterling Heights uses an Internal Service Fund to account for its self-insurance program. Because this program predominantly benefits governmental rather than business-type functions, it has been consolidated within the governmental activities in the government-wide financial statements.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Required Supplemental Information concerning the City's progress in funding its obligations to provide pensions and other postemployment benefits to its employees is also presented in this section of the report. Also included are the budgetary comparison statements for the General Fund and major Special Revenue Fund as well as budget footnotes. This required supplemental information is in addition to the basic financial statements and accompanying notes.

Other Financial and Supplemental Information, such as the combining statements and certain budget comparison statements referred to earlier, is presented immediately following the required supplemental information.

Statistical Information and Continuing Disclosure contains information which reflects financial trends of the City, statistics, and demographic information as well as information as required by bond covenants.

The City of Sterling Heights as a Whole

The City's combined net assets increased 0.7 percent from a year ago, increasing from \$376.7 million to \$379.1 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$3.8 million in net assets, or 1.9 percent, during fiscal 2008. This increase was attributable to operating income of \$3.8 million plus a net reduction in investment in capital assets of \$.5 million, offset by an increase in restricted net assets of \$5.4 million and a decrease in unrestricted net assets of \$1.1 million.

The business-type activities experienced a decrease in net assets of approximately \$1.4 million. This was primarily due to nonoperating revenues and contribution of water and sewer lines by developers totaling \$3.9 million, combined with offsetting operating losses of \$5.3 million. In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2008 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current assets	\$ 56.5	\$ 51.0	\$ 33.7	\$ 33.6	\$ 90.2	\$ 84.6
Noncurrent assets:						
Restricted and other assets	7.4	4.1	7.5	7.4	14.9	11.5
Capital assets	<u>207.7</u>	<u>212.2</u>	<u>135.7</u>	<u>137.4</u>	<u>343.4</u>	<u>349.6</u>
Total assets	271.6	267.3	176.9	178.4	448.5	445.7
Liabilities						
Current liabilities	8.9	8.3	4.1	4.2	13.0	12.5
Noncurrent liabilities	<u>56.2</u>	<u>56.3</u>	<u>0.2</u>	<u>0.2</u>	<u>56.4</u>	<u>56.5</u>
Total liabilities	<u>65.1</u>	<u>64.6</u>	<u>4.3</u>	<u>4.4</u>	<u>69.4</u>	<u>69.0</u>
Net Assets						
Invested in capital assets - Net of related debt	175.1	175.6	135.7	137.4	310.8	313.0
Restricted	12.0	6.6	7.5	7.4	19.5	14.0
Unrestricted	<u>19.4</u>	<u>20.5</u>	<u>29.4</u>	<u>29.2</u>	<u>48.8</u>	<u>49.7</u>
Total net assets	<u>\$ 206.5</u>	<u>\$ 202.7</u>	<u>\$ 172.6</u>	<u>\$ 174.0</u>	<u>\$ 379.1</u>	<u>\$ 376.7</u>

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Unrestricted net assets for the governmental activities, which is the part of the net assets available to finance day-to-day operations and future growth, was \$19.4 million on June 30, 2008. This represents a \$1.1 million decrease as compared to June 30, 2007. The major factor contributing to the decrease of unrestricted net assets was \$.9 million reduction to long-term debt not related to capital assets.

The following table shows the changes in net assets (in millions of dollars) as of June 30, 2008 and the prior year:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue						
Program revenue:						
Charges for services	\$ 13.5	\$ 14.2	\$ 27.4	\$ 25.4	\$ 40.9	\$ 39.6
Operating grants and contributions	8.5	9.1	-	-	8.5	9.1
Capital grants and contributions	3.2	2.7	2.5	2.7	5.7	5.4
General revenues:						
Property taxes	58.3	55.6	-	-	58.3	55.6
State-shared revenues	10.7	10.7	-	-	10.7	10.7
Interest	3.1	3.4	1.5	1.8	4.6	5.2
Gain (loss) on disposal of capital assets	(0.6)	0.2	-	-	(0.6)	0.2
Other non-program generated revenues	1.7	1.5	-	-	1.7	1.5
Total revenue	98.4	97.4	31.4	29.9	129.8	127.3
Program Expenses						
General government	11.0	10.3	-	-	11.0	10.3
41A District Court	3.2	3.0	-	-	3.2	3.0
Public safety	48.1	44.0	-	-	48.1	44.0
Public works	24.1	22.6	-	-	24.1	22.6
Recreation and culture	6.3	5.9	-	-	6.3	5.9
Interest on long-term debt	1.9	1.9	-	-	1.9	1.9
Water and sewer	-	-	32.8	30.3	32.8	30.3
Total program expenses	94.6	87.7	32.8	30.3	127.4	118.0
Increase (Decrease) in Net Assets	3.8	9.7	(1.4)	(0.4)	2.4	9.3
Net Assets - Beginning of year	202.7	193.0	174.0	174.4	376.7	367.4
Net Assets - End of year	<u>\$ 206.5</u>	<u>\$ 202.7</u>	<u>\$ 172.6</u>	<u>\$ 174.0</u>	<u>\$ 379.1</u>	<u>\$ 376.7</u>

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's total governmental revenues increased by approximately \$1.0 million during fiscal 2008. This increase was the result of higher property tax revenues of \$2.7 million (due to inflationary increases in taxable values combined with minimum growth in new construction), increased capital grant revenues of \$0.5 million (due to reimbursement of cost related to a road project), and increases in cable franchise fee collections of \$0.2 million. The increases noted above were offset by decreases in all other revenue categories of approximately \$2.7 million due to the reduction of economic activity within the city, state, and nationally.

Expenses increased by approximately \$6.9 million or 7.8 percent over the previous fiscal year. Contributing to the increase were annual wage increases, increases in employee health insurance and other benefit costs, and an increase of \$3.0 million in the City's contributions to the City's retiree healthcare trust. These increases were offset by the reduction in the required contribution to the Police and Fire Retirement System (\$0.9 million).

During the year, the City continued meeting the actuarial required contributions for both defined benefit pension systems and increased funding set aside in trust for retiree medical benefits by 43 percent over the prior year. This is important for the City since future taxpayers should not be required to fund benefit payments that were earned in the current period.

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water, which is purchased from the City of Detroit Water System, to nearly all residents. Rate increases for fiscal year 2008 were less than the increase received from the City of Detroit due to the budgeted use of unrestricted net assets accumulated over prior years. The City provides sewage treatment to approximately 99 percent of its residents through the Macomb County Sewage Treatment Plant. Rate increases for sewage treatment to residents were also below the increased rates charged by Macomb County. During fiscal 2008, the water and sewer system experienced approximately a 4.9 percent increase in the volume of water sold and a 1.0 percent increase in the sewage treated. This increase is consistent with the weather conditions over the fiscal year and the City's efforts to reduce water consumption overall in order to control rate increases from the City of Detroit. As in prior years, a major source of growth in the system was the water and sewer lines contributed by developers to the City approximating \$2.0 million. This contribution, plus tap fees and frontage charges paid by residents (\$0.4 million) combined with interest income (\$1.5 million), offset the \$5.3 million operating loss realized and resulted in a \$1.4 million reduction in net assets during fiscal year 2008.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The City's Funds

Our analysis of the City's major funds begins on pages 15 and 16, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51 major and local roads revenue and voted debt retirement property tax millages. The City's major funds for 2008 include the General Fund, the Major Roads Fund, the Road Bond Debt Retirement Fund, the General Improvements Fund, and the Road Bond Construction Fund.

The General Fund pays for most of the City's governmental services. The most significant of these are police and fire services, which incurred expenditures of approximately \$44.2 million in 2008, before depreciation and other full accrual accounting adjustments. The general operating millage levied by the City supports these two services. Fund balance in the General Fund decreased by \$0.4 million primarily due to a decline in building-related revenues.

Fund balance in the Major Roads Fund increased by \$1.6 million primarily due to the receipt of \$2.4 million in reimbursements for a prior year road project received from the State of Michigan. Total revenues and transfers in excluding the one-time reimbursement mentioned above were \$6.4 million or \$0.4 million below the prior year due to a decrease in federal grant receipts and interest income. Expenditures and transfers out were \$7.3 million or \$1.6 million higher. The increase in expenditures was due to increased road maintenance activity (\$0.3 million), increased capital outlay for road construction (\$0.7 million), and increased transfers out for road bond-related debt service and construction (\$0.6 million).

The Road Bond Debt Retirement Fund accounts for revenues accumulated to pay principal and interest on outstanding debt associated with various road and infrastructure projects. During fiscal year 2008, the levying of approximately \$3.3 million in special assessments to fund improvements to the roads and right-of-ways surrounding Lakeside Mall initiated the inclusion as a major fund. The special assessments will be collected over 20 years and will be used for debt service on \$3.26 million of Special Assessment Bonds subsequently issued in August 2008.

The General Improvements Fund and Road Bond Construction Fund are the two funds used by the City to account for most capital outlay expenditures. Transfers from other funds or debt issuance proceeds support the activities within these funds. The General Improvements Fund had an increase in fund balance (\$4.0 million) due to bond proceeds from the \$5.0 million Fire Station Improvement Bonds exceeding capital outlay for the ongoing project at June 30, 2008. It is anticipated that the balance of the bond proceeds will be spent during the next fiscal year. The Road Bond Construction Fund had a decrease in fund balance (\$0.6 million) during fiscal year 2008 due to planned use of fund balance for capital projects.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, City administration and the City Council monitor and amend the budget to take into account unanticipated events that occur during the year. The budget was amended twice during fiscal 2008. Final budgeted expenditures were slightly higher than the original budget (\$0.6 million or 0.7 percent) primarily due to higher fuel costs and additional overtime costs in response to severe weather and vacancies in the Police Department. The total General Fund revenue budget increased (\$0.2 million or 0.3 percent) due to higher than anticipated charges for services revenues and slightly higher cable revenues, which were offset by declines in revenues related to development activities.

At year end, actual General Fund expenditures came in at 99.7 percent or \$250,880 under budget due to continued department operational efficiencies. General Fund revenues came in at 99.6 percent or approximately \$362,000 under budget as a result of lower year-end tax collections, interest on investments, and court revenues.

Capital Assets and Debt Administration

At the end of fiscal year 2008, the City had \$306.5 million invested (net of related debt) in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, infrastructure assets (roads, bridges, sidewalks, and storm drains in which it has invested since 1980), and water and sewer lines. The value of the infrastructure assets, net of depreciation, contained in this report is \$116.3 million and \$120.3 million for fiscal years 2008 and 2007, respectively (see Note 4 of the notes to the basic financial statements for additional information).

The City's general obligation bonds received an increase in their ratings from Standard & Poors to "AA+", while maintaining ratings of "AA+" from Fitch, throughout the year. During the fiscal year, the City issued \$5.0 million par value in Unlimited Tax General Obligation Fire Station Renovation bonds. The proceeds from this bond issue are being used to finance various improvements to Fire Stations #2, #3, and #4. Debt service during fiscal year 2008 consisted of \$5.7 million in principal and \$1.9 million in interest after recognition of amortized premiums (see Note 7 of the notes to the basic financial statements for additional information).

The ratio of net general bonded debt to assessed valuation and the amount of net bonded debt per capita are as follows:

	2008	2007
Net direct bonded debt	\$ 30,130,000	\$ 28,915,000
Ratio of debt to total taxable value	0.4711%	0.4630%
Debt per capita	\$ 232.67	\$ 223.78

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Property taxes make up nearly 65 percent of the City's General Fund budget. The City has been able to reduce the property tax millage rate by 2.59 mills or 19.4 percent since 1988, saving the average resident \$2,911 in taxes over the 21-year period. Strong expenditure controls and past growth in the City's tax base helped to accomplish this planned tax rate reduction. In 2009, the City's tax rate will increase by 0.0608 mills to fund the debt service on the 2006 voter approved Fire Station Renovation bonds (Proposal F). The City's fiscal 2009 millage rate of 10.7858 compares very favorably to surrounding communities in Southeast Michigan. In fact, the City's tax rate is lower than all but one of the 77 full-service communities located within 20 miles. Not only do most of these cities have higher tax rates, almost all have continued to increase millage rates over the years.

Tax rate reductions experienced in the past are not presently forecasted. New growth and development in the City have diminished from a 4 percent rate in the late 1990s to 1.8 percent in 2007 with only 0.9 percent for fiscal year 2008. More importantly, for the first time in 25 years, the City's taxable values will drop in fiscal year 2009 due to falling home prices, resulting in a projected decline in property tax revenues. Property taxes are expected to decline further over the next two years. However, when the market does recover, under Proposal A, taxable value losses will never be fully recouped due to the mandated inflationary cap on property assessments. In addition, the City's second largest revenue source, state revenue sharing, has been cut by the State of Michigan for each of the last seven years. As a result of these cuts, the City has lost nearly 20 percent of its revenue-sharing dollars. It is likely the City will see a reduction again due to the State's continued structural deficit problems. Furthermore, building and engineering revenues are trending downward due to less new development in the City, while interest on investments is beginning to decline due to falling interest rates.

The City continues to take action to keep its expenditures and revenues in line and to operate with relatively low personnel costs due to its efficient labor force. All labor contracts have been successfully negotiated resulting in reduced health costs for current employees and future retirees. The City received a bond-rating upgrade from Standard & Poor's during 2008 due largely to its proactive efforts to plan for future property assessment declines. The City's pension systems are fully funded and the City has significantly increased its funding for future retiree medical costs, currently contributing 24 percent of payroll. As a result of expected property tax revenue losses over the next two years, the City continues to investigate potential new revenue opportunities and will continue to monitor and adjust expenditures to the revenue base in order to ensure that adequate fund balance reserves are maintained.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The City purchases its water and sewer services from the City of Detroit. Historically, the City has not passed the full Detroit water and sewer rate increase to our customers. Over the past several years, the City has changed its water and sewer rate structure from a declining tier to an inclining tier. This has facilitated the recovery of costs from the system's largest users who are contributing most to the higher peak costs, while at the same time lowering the cost to the average user. In addition, the City has recently signed a new water contract with the City of Detroit and changed water regulations that will save maximum day "peaking" cost resulting in lower rate increases from Detroit. The City prides itself on having the lowest combined residential water and sewer rate of any city in the state with 25,000 or more residents. The City continues to work to ensure that Sterling Heights retains the lowest rates in the state.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the resources it receives. If you have any questions about this report or need additional information, we invite you to contact the administration offices at City Hall.

City of Sterling Heights, Michigan

Statement of Net Assets June 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 23,384,822	\$ 1,401,981	\$ 24,786,803	\$ 31,887
Investments - At fair value (Note 3)	25,581,075	24,834,400	50,415,475	-
Receivables:				
Customers	-	7,087,187	7,087,187	-
Special assessments - Current	53,537	-	53,537	-
Accrued interest	208,719	209,865	418,584	-
Other	870,092	-	870,092	-
Internal balances	173,130	(173,130)		
Due from other governmental units	4,014,140	-	4,014,140	3,862
Prepaid costs and other assets	1,735,271	-	1,735,271	-
Inventories	492,676	310,607	803,283	-
Special assessments	3,582,370	-	3,582,370	-
Restricted assets (Note 8)	2,003,760	7,522,330	9,526,090	-
Loans receivable (Note 9)	1,777,570	-	1,777,570	-
Capital assets:				
Nondepreciable (Note 4)	49,420,372	890,154	50,310,526	-
Depreciable - Net (Note 4)	158,299,659	134,833,465	293,133,124	-
Total assets	271,597,193	176,916,859	448,514,052	35,749
Liabilities				
Accounts payable	2,449,792	3,860,982	6,310,774	2,633
Accrued and other liabilities	3,347,570	162,877	3,510,447	-
Provision for uninsured losses and liabilities (Note 10)	794,398	-	794,398	-
Due to other governmental units	63,802	-	63,802	-
Unearned revenue (Note 6)	2,187,950	109,720	2,297,670	-
Noncurrent liabilities (Note 7):				
Due within one year	6,628,267	135,773	6,764,040	-
Due in more than one year	49,587,266	63,681	49,650,947	-
Total liabilities	65,059,045	4,333,033	69,392,078	2,633
Net Assets				
Invested in capital assets - Net of related debt	175,084,518	135,723,619	310,808,137	-
Restricted:				
Roads	6,182,751	-	6,182,751	-
Public safety	474,803	-	474,803	-
Debt service	3,354,364	-	3,354,364	-
County drains (Note 8)	2,003,760	-	2,003,760	-
Ordinance requirements (Note 8)	-	7,522,330	7,522,330	-
Unrestricted	19,437,952	29,337,877	48,775,829	33,116
Total net assets	\$ 206,538,148	\$ 172,583,826	\$ 379,121,974	\$ 33,116

City of Sterling Heights, Michigan

			Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
	Expenses	Charges for Services		
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 11,017,399	\$ 2,216,008	\$ 33,480	\$ -
41A District Court	3,164,448	2,351,225	153,282	-
Public safety	48,044,223	1,984,318	411,488	398,784
Public works	24,083,515	6,363,346	7,099,347	2,443,414
Recreation and culture	6,322,163	629,818	827,633	331,559
Interest on long-term debt	1,921,428	-	-	-
Total governmental activities	94,553,176	13,544,715	8,525,230	3,173,757
Business-type activities - Water and Sewer	32,784,120	27,456,965	-	2,461,289
Total primary government	\$ 127,337,296	\$ 41,001,680	\$ 8,525,230	\$ 5,635,046
Component units:				
Economic Development Corporation	\$ 8,713	\$ -	\$ 8,500	\$ -
Brownfield Redevelopment Authority	41,651	-	54,604	-
Corridor Improvement Authority	9,550	-	20,083	-
Total component units	\$ 59,914	\$ -	\$ 83,187	\$ -
General revenues:				
Property taxes				
Unrestricted state revenue-sharing program				
Interest				
Loss on disposal of capital assets				
Other non-program generated revenues				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2008

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (8,767,911)	\$ -	\$ (8,767,911)	
(659,941)	-	(659,941)	
(45,249,633)	-	(45,249,633)	
(8,177,408)	-	(8,177,408)	
(4,533,153)	-	(4,533,153)	
(1,921,428)	-	(1,921,428)	
(69,309,474)	-	(69,309,474)	
-	(2,865,866)	(2,865,866)	
(69,309,474)	(2,865,866)	(72,175,340)	
-	-	-	\$ (213)
-	-	-	12,953
-	-	-	10,533
-	-	-	23,273
58,331,682	-	58,331,682	-
10,675,667	-	10,675,667	-
3,075,919	1,455,323	4,531,242	1,404
(577,891)	-	(577,891)	-
1,671,094	-	1,671,094	-
73,176,471	1,455,323	74,631,794	1,404
3,866,997	(1,410,543)	2,456,454	24,677
202,671,151	173,994,369	376,665,520	8,439
\$ 206,538,148	\$ 172,583,826	\$ 379,121,974	\$ 33,116

City of Sterling Heights, Michigan

	General Fund	Major Roads	Road Bond Debt Retirement	General Improvements
Assets				
Cash and cash equivalents (Note 3)	\$ 9,174,341	\$ 2,343,007	\$ 23,747	\$ 5,488,907
Investments - At fair value (Note 3)	8,931,150	745,525	-	1,494,050
Receivables:				
Special assessments:				
Current	-	-	-	19,402
Deferred	-	-	3,261,923	47,368
Accrued interest	97,846	-	-	10,854
Other	787,445	-	-	91,451
Prepaid costs and other assets	104,149	570,550	-	69,570
Due from other funds (Note 5)	495,219	-	-	-
Due from other governmental units	908,844	862,937	-	-
Inventories	492,676	-	-	-
Restricted assets (Note 8)	-	-	-	2,003,760
Rehabilitation loans (Note 9)	-	-	-	-
Total assets	<u>\$ 20,991,670</u>	<u>\$ 4,522,019</u>	<u>\$ 3,285,670</u>	<u>\$ 9,225,362</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,404,496	\$ 105,673	\$ -	\$ 598,265
Accrued and other liabilities	2,543,090	12,190	-	71,700
Due to other funds (Note 5)	1,228,056	95,169	-	31,997
Due to other governmental units	63,802	-	-	-
Deferred revenue (Note 6)	459,316	-	3,261,923	2,119,611
Total liabilities	5,698,760	213,032	3,261,923	2,821,573
Fund Balances				
Reserved for:				
Encumbrances	46,739	170,278	-	151,813
Bond activity	-	-	-	4,289,487
Inventory	492,676	-	-	-
Prepaid costs	104,149	570,550	-	69,570
Unreserved - Reported in (Note 14):				
General Fund	14,649,346	-	-	-
Special Revenue Funds	-	3,568,159	-	-
Capital Projects Funds	-	-	-	1,892,919
Debt Service Funds	-	-	23,747	-
Total fund balances	<u>15,292,910</u>	<u>4,308,987</u>	<u>23,747</u>	<u>6,403,789</u>
Total liabilities and fund balances	<u>\$ 20,991,670</u>	<u>\$ 4,522,019</u>	<u>\$ 3,285,670</u>	<u>\$ 9,225,362</u>

**Governmental Funds
Balance Sheet
June 30, 2008**

Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 66,135	\$ 3,414,309	\$ 20,510,446
-	-	11,170,725
-	34,135	53,537
-	273,079	3,582,370
-	18,432	127,132
-	-	878,896
35,024	2,508	781,801
93,077	1,561	589,857
-	354,404	2,126,185
-	-	492,676
-	-	2,003,760
-	1,777,570	1,777,570
\$ 194,236	\$ 5,875,998	\$ 44,094,955
\$ 14,810	\$ 144,818	\$ 2,268,062
25,976	-	2,652,956
-	194,923	1,550,145
-	-	63,802
-	2,050,649	7,891,499
40,786	2,390,390	14,426,464
-	34,459	403,289
-	-	4,289,487
-	-	492,676
35,024	-	779,293
-	-	14,649,346
-	3,382,455	6,950,614
118,426	-	2,011,345
-	68,694	92,441
153,450	3,485,608	29,668,491
\$ 194,236	\$ 5,875,998	\$ 44,094,955

City of Sterling Heights, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets June 30, 2008

Total Fund Balances for Governmental Funds	\$ 29,668,491
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Amounts reported for governmental activities in the statement of net assets are different because:

Certain receivables are expected to be collected over several years in the General Fund, Special Revenue Funds, and Debt Service Funds	3,690,985
--	-----------

Receivables related to state-shared revenues are reported in the statement of net assets at the time they are earned, without regard to timeliness of remittance by the State	1,887,955
---	-----------

Restricted assets held by Macomb County to be used over several years and which are not available to pay for current year expenditures	2,003,760
--	-----------

Capital assets used in governmental activities are not financial resources and are not reported in the funds	207,720,031
--	-------------

Long-term liabilities not due and payable in the current period are not reported in the funds	(48,840,000)
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Compensated absences that are not requested prior to fiscal year end are not payable in the current period and are not included in the funds	(5,063,708)
--	-------------

Bond premiums are amortized over the life of the bonds, while recognized as an other financing source in the funds when received	(694,614)
--	-----------

Internal Service Fund is included as part of governmental activities	16,165,248
--	------------

Net Assets of Governmental Activities	<u>\$ 206,538,148</u>
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City of Sterling Heights, Michigan

	General Fund	Major Roads	Road Bond Debt Retirement	General Improvements
Revenues				
Property taxes	\$ 56,266,066	\$ -	\$ -	\$ -
Fees and permits	1,352,594	-	-	-
Federal sources	236,215	-	-	29,560
State and local sources	11,426,846	5,152,104	-	143,911
Fines and forfeitures	2,755,701	-	-	-
Charges for services	7,988,183	-	-	-
Interest income	1,974,515	98,932	7,332	120,879
Special assessments	-	-	-	22,538
Rental income	1,727,929	-	-	-
Cable revenue	1,671,094	-	-	-
Reimbursement of advance road construction	-	2,440,414	-	-
Other	595,641	343,539	-	637,456
Total revenues	85,994,784	8,034,989	7,332	954,344
Expenditures				
Current:				
General government	11,244,018	-	-	-
41A District Court	2,974,001	-	-	-
Public safety	44,235,490	-	-	-
Public works	15,802,814	2,057,792	-	-
Recreation and culture	5,358,825	-	-	-
General expenditures	2,931,292	-	1,362	-
Capital outlay	-	1,402,907	-	3,527,973
Debt service	-	-	2,635,012	-
Total expenditures	82,546,440	3,460,699	2,636,374	3,527,973
Excess of Revenues Over (Under) Expenditures	3,448,344	4,574,290	(2,629,042)	(2,573,629)
Other Financing Sources (Uses)				
Issuance of long-term debt	-	-	-	5,000,000
Bond premium	-	-	-	-
Transfers in	96,371	800,000	2,600,200	1,534,500
Transfers out	(3,969,700)	(3,800,200)	-	-
Total other financing sources (uses)	(3,873,329)	(3,000,200)	2,600,200	6,534,500
Net Change in Fund Balances	(424,985)	1,574,090	(28,842)	3,960,871
Fund Balances - Beginning of year	15,717,895	2,734,897	52,589	2,442,918
Fund Balances - End of year	<u>\$ 15,292,910</u>	<u>\$ 4,308,987</u>	<u>\$ 23,747</u>	<u>\$ 6,403,789</u>

Governmental Funds
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2008

Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 2,065,616	\$ 58,331,682
-	-	1,352,594
-	735,866	1,001,641
-	2,217,116	18,939,977
-	-	2,755,701
-	-	7,988,183
10,030	104,965	2,316,653
-	70,207	92,745
-	-	1,727,929
-	-	1,671,094
-	-	2,440,414
<u>102,058</u>	<u>76,951</u>	<u>1,755,645</u>
112,088	5,270,721	100,374,258
-	-	11,244,018
-	-	2,974,001
-	200,180	44,435,670
-	2,273,890	20,134,496
-	-	5,358,825
-	13,107	2,945,761
862,304	1,608,835	7,402,019
<u>-</u>	<u>4,988,391</u>	<u>7,623,403</u>
<u>862,304</u>	<u>9,084,403</u>	<u>102,118,193</u>
(750,216)	(3,813,682)	(1,743,935)
-	-	5,000,000
-	50,143	50,143
200,000	4,485,099	9,716,170
<u>-</u>	<u>(427,930)</u>	<u>(8,197,830)</u>
<u>200,000</u>	<u>4,107,312</u>	<u>6,568,483</u>
(550,216)	293,630	4,824,548
<u>703,666</u>	<u>3,191,978</u>	<u>24,843,943</u>
<u>\$ 153,450</u>	<u>\$ 3,485,608</u>	<u>\$ 29,668,491</u>

City of Sterling Heights, Michigan

Governmental Funds **Reconciliation of the Statement of Revenues, Expenditures, and Changes** **in Fund Balances of Governmental Funds to the Statement of Activities** **Year Ended June 30, 2008**

Net Change in Fund Balances - Total Governmental Funds **\$ 4,824,548**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation (net of prior year's construction in progress placed in service)

Capital outlay	7,537,804
Depreciation expense	(11,704,719)
Net book value of assets disposed of	(337,500)

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection 99,688

Special assessment revenues are recorded in the statement of activities when the assessment is earned (i.e., work is substantially complete); they are not reported in the funds until collected or collectible within 60 days of year end. In the current year, more was collected than earned 3,198,123

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 5,685,000

Debt issuance is not reported as an other financing source on the statement of activities (5,000,000)

Premiums received on bond issuance are recognized in the year of issuance in the governmental funds, but are amortized over the life of the bonds on the statement of activities (33,167)

Accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities. In the current year, more was earned than was paid out (369,385)

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the Internal Service Fund is reported with governmental activities (33,395)

Change in Net Assets of Governmental Activities **\$ 3,866,997**

City of Sterling Heights, Michigan

Proprietary Funds Statement of Net Assets June 30, 2008

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 1,401,981	\$ 2,874,376
Investments - At fair value (Note 3)	24,834,400	14,410,350
Receivables:		
Customers	7,087,187	-
Accrued interest	209,865	81,587
Prepaid costs and other assets	-	953,470
Due from other governments	-	-
Due from other funds (Note 5)	-	1,133,418
Inventories	310,607	-
Total current assets	33,844,040	19,453,201
Noncurrent assets:		
Restricted assets (Note 8)	7,522,330	-
Capital assets - Net (Note 4)	135,723,619	-
Total noncurrent assets	143,245,949	-
Total assets	177,089,989	19,453,201
Liabilities		
Current liabilities:		
Accounts payable	3,860,982	181,730
Accrued and other liabilities	162,877	-
Due to other funds	173,130	-
Compensated absences (Note 7)	135,773	-
Provision for uninsured losses and liabilities (Note 10)	-	794,398
Unearned revenue	109,720	-
Total current liabilities	4,442,482	976,128
Noncurrent liabilities:		
Compensated absences (Note 7)	63,681	-
Provision for uninsured losses and liabilities (Note 10)	-	2,311,825
Total noncurrent liabilities	63,681	2,311,825
Total liabilities	4,506,163	3,287,953
Net Assets		
Investment in capital assets	135,723,619	-
Restricted for ordinance requirements	7,522,330	-
Unrestricted	29,337,877	16,165,248
Total net assets	\$ 172,583,826	\$ 16,165,248

City of Sterling Heights, Michigan

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Operating Revenues		
Water sales	\$ 11,245,031	\$ -
Sewage treatment	14,230,159	-
Service charges	840,021	-
City contributions	-	8,346,742
Other	1,141,754	197,867
Total operating revenues	27,456,965	8,544,609
Operating Expenses		
Wages and fringe benefits	3,243,702	-
Contractual services	149,739	-
Water purchases	9,424,067	-
Sewage disposal charges	12,254,381	-
Materials and supplies	224,914	-
Repairs and maintenance	493,856	-
Building and equipment rental	139,564	-
Insurance	252,340	-
Depreciation	4,677,020	-
Administration expenses	1,643,220	304,302
Reinsurance charges and claims	-	7,130,555
Other	281,317	384,073
Total operating expenses	32,784,120	7,818,930
Operating (Loss) Income	(5,327,155)	725,679
Nonoperating Revenues		
Interest income	1,455,323	759,266
Tap fees and frontage charges	399,442	-
Total nonoperating revenues	1,854,765	759,266
(Loss) Income - Before contributions and operating transfers	(3,472,390)	1,484,945
Contributions from Developers	2,061,847	-
Transfer Out	-	(1,518,340)
Change in Net Assets	(1,410,543)	(33,395)
Net Assets - Beginning of year	173,994,369	16,198,643
Net Assets - End of year	<u>\$ 172,583,826</u>	<u>\$ 16,165,248</u>

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Cash Flows from Operating Activities		
Receipts from customers	\$ 26,060,514	\$ 8,728,427
Payments to suppliers for goods and services	(22,027,504)	-
Payments to employees for services	(3,243,702)	-
Payments connected with interfund services	(1,895,560)	(1,135,053)
Receipts connected with interfund services	2,770,465	-
Claims paid	-	(6,855,182)
Other receipts	237,547	(186,206)
Net cash provided by operating activities	1,901,760	551,986
Cash Flows from Noncapital Financing Activities - Transfer to governmental funds	-	(1,518,340)
Cash Flows from Capital and Related Financing Activities		
Collection of customer assessments (principal and interest)	399,442	-
Purchase of capital assets	(925,733)	-
Net cash used in capital and related financing activities	(526,291)	-
Cash Flows from Investing Activities		
Interest received on investments	1,455,323	759,266
Purchase of investment securities	(88,912,311)	(46,129,848)
Proceeds from sales and maturities of investment securities	83,333,981	46,873,523
Net cash (used in) provided by investing activities	(4,123,007)	1,502,941
Net (Decrease) Increase in Cash and Cash Equivalents	(2,747,538)	536,587
Cash and Cash Equivalents - Beginning of year	5,149,519	2,337,789
Cash and Cash Equivalents - End of year	<u>\$ 2,401,981</u>	<u>\$ 2,874,376</u>
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 1,401,981	\$ 2,874,376
Restricted cash and cash equivalents (Note 8)	1,000,000	-
Total	<u>\$ 2,401,981</u>	<u>\$ 2,874,376</u>

(This statement is continued on the following page.)

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2008

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Reconciliation of operating (loss) income to net cash from operating activities:		
Operating (loss) income	\$ (5,327,155)	\$ 725,679
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation and amortization	4,677,020	-
Changes in assets and liabilities:		
Receivables	(254,697)	36,878
Prepaid costs and other assets	-	344,807
Due from other funds	2,597,335	(830,751)
Inventory	71,770	-
Accounts payable	(39,572)	101,106
Accrued and other liabilities	3,703	-
Provision for compensated absences	(10,304)	-
Provision for uninsured losses and liabilities	-	174,267
Deferred revenue	10,530	-
Due to other funds	173,130	-
Net cash provided by operating activities	<u>\$ 1,901,760</u>	<u>\$ 551,986</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2008, developers constructed water and sewer lines with an estimated value of \$2,061,847 and donated them to the City's Water and Sewer Enterprise Fund.

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2008

	Trust Funds - Pensions and Other Retirement Benefits	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 9,002,234	\$ 2,500,840
Investments - At fair value (Note 3):		
Government securities	26,108,586	-
Short-term investment fund	-	849,275
Corporate bonds	91,845,677	-
Common and preferred stocks	203,436,513	-
Pooled investments	10,667,685	-
Receivables - Accrued interest	916,325	-
Due from other governmental units	-	3,213
	<hr/>	<hr/>
Total assets	341,977,020	<u><u>\$ 3,353,328</u></u>
Liabilities		
Accounts payable	1,680,250	\$ -
Accrued and other liabilities	4,355,959	1,188,755
Due to other governmental units	478,946	104,504
Provision for uninsured losses and liabilities (Note 10)	627,461	-
Deferred revenue	3,238	-
Cash bonds and deposits	-	2,060,069
	<hr/>	<hr/>
Total liabilities	7,145,854	<u><u>\$ 3,353,328</u></u>
Net Assets - Held in trust for pensions and other retirement benefits	<u><u>\$ 334,831,166</u></u>	

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2008

	Trust Funds - Pensions and Other Retirement Benefits
<hr/>	
Additions	
Investment income:	
Interest and dividends	\$ 10,846,211
Net adjustment to fair value of investments	(17,050,605)
Less investment expenses	<u>(1,218,372)</u>
Net investment income	(7,422,766)
Securities lending income:	
Interest and fees	1,352,871
Less borrower rebates and bank fees	<u>(1,199,888)</u>
Net securities lending income	152,983
Contributions:	
Employer	11,769,290
Employee	1,951,094
Purchase of prior year's service credits	1,631,921
Insurance recovery	<u>116,401</u>
Total additions	8,198,923
Deductions	
Benefit payments	23,883,657
Refunds of contributions	<u>1,214,391</u>
Total deductions	<u>25,098,048</u>
Change in Net Assets	(16,899,125)
Net Assets - Beginning of year	<u>351,730,291</u>
Net Assets - End of year	<u><u>\$ 334,831,166</u></u>

City of Sterling Heights, Michigan

Component Units Statement of Net Assets June 30, 2008

	Economic Development Corporation	Brownfield Redevelopment Authority	Corridor Improvement Authority	Total
Assets				
Cash and cash equivalents	\$ 3,934	\$ 16,925	\$ 11,028	\$ 31,887
Due from other governmental units	<u>3,605</u>	<u>257</u>	<u>-</u>	<u>3,862</u>
Total assets	7,539	17,182	11,028	35,749
Liabilities - Accounts payable	<u>2,633</u>	<u>-</u>	<u>-</u>	<u>2,633</u>
Net Assets - Unrestricted	<u><u>\$ 4,906</u></u>	<u><u>\$ 17,182</u></u>	<u><u>\$ 11,028</u></u>	<u><u>\$ 33,116</u></u>

City of Sterling Heights, Michigan

Component Units Statement of Activities Year Ended June 30, 2008

	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Operating Grants and Contributions	Economic Development Corporation	Brownfield Redevelopment Authority	Corridor Improvement Authority	Total
Economic Development Corporation -						
Public Works	\$ 8,713	\$ 8,500	\$ (213)	\$ -	\$ -	\$ (213)
Brownfield Redevelopment Authority -						
Public Works	41,651	54,604	-	12,953	-	12,953
Corridor Improvement Authority -						
Public Works	9,550	20,083	-	-	10,533	10,533
Total component units	<u>\$ 59,914</u>	<u>\$ 83,187</u>	(213)	12,953	10,533	23,273
General Revenues - Interest			320	589	495	1,404
Change in Net Assets			107	13,542	11,028	24,677
Net Assets - Beginning of year			4,799	3,640	-	8,439
Net Assets - End of year			<u>\$ 4,906</u>	<u>\$ 17,182</u>	<u>\$ 11,028</u>	<u>\$ 33,116</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Sterling Heights, Michigan (the "City") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

Discretely Presented Component Units - The following nonmajor component units are reported within the component units column in the government-wide financial statements to emphasize that they are legally separate from the City. Financial statements for each of the individual component units are available at the City's office.

- a. The Economic Development Corporation (the "Corporation") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services to and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of five individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the Corporation. The Corporation is presented as a governmental fund type.
- b. The Brownfield Redevelopment Authority (the "BR Authority") was created to encourage and provide assistance in environmentally distressed areas in the City. The BR Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the BR Authority. The BR Authority is presented as a governmental fund type.
- c. The Corridor Improvement Authority (the "CI Authority") was created to encourage revitalization and redevelopment of commercial properties which have been developed along the City's major arterial roadways. The CI Authority's governing body, which consists of seven individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the CI Authority. The CI Authority is presented as a governmental fund type.

The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not allocable to program revenues are reported instead as general revenues.

Separate financial statements are provided within the report for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and the trust fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Roads Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.
- The Road Bond Debt Retirement Fund (a Debt Service Fund type) accounts for revenues accumulated to pay principal and interest on outstanding debt associated with various road and infrastructure assets.
- The General Improvements Fund (a Capital Projects Fund type) accounts for the proceeds of bond issues and all other resources used for the purpose of constructing all major capital improvement projects of the City other than special assessment, road, and enterprise projects.
- The Road Bond Construction Fund (a Capital Projects Fund type) accounts for the proceeds of bond issues and all other resources used for the purpose of construction activity for roads and storm drains.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City reports the following major proprietary fund:

- The Water and Sewer Fund accounts for the activity of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

- The Internal Service Fund accounts for risk management services provided to other departments of the government on a cost reimbursement basis.
- The Pension Trust Funds and the Retiree Medical Benefit Fund account for the activities of the general employee and police and fire employees' retirement systems, which accumulate resources for pension benefit payments to qualified general and police and fire employees and for medical benefits provided to employees during retirement, respectively.
- The Tax Collection and General Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, and other governments. Agency Fund activity includes tax collections and the general Agency Fund (District Court activity).

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the policy is to first apply restricted resources.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents, and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less when acquired. Investments are stated at fair value. Shared pooled investment income from the General Drain, Voted Tax General Obligation, Settlement, Road Bond, and Limited Tax Obligations Debt Service Funds is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to" or "due from" other funds." Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to" or "advances from" other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Properties are assessed as of December 31 and the related property taxes become a lien and are billed on July 1 of the following year. These taxes are due on September 1 with the final collection date of February 28 before they are added to the county tax rolls.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - The City Charter requires amounts in the Enterprise Fund to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve, when applicable. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for construction, maintenance, or debt service.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Building improvements	25 years
Other improvements	10-30 years
Equipment	5-20 years
Furnishings and fixtures	10-15 years
Infrastructure	20-40 years
Water and sewer mains	50 years

Compensated Absences - The City allows employees to accumulate earned but unused sick and vacation pay benefits. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned, and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or employees terminate).

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, such as provision for uninsured losses, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2007		\$ (3,713,346)
Current year building permit revenue		1,454,485
Related expenses:		
Direct costs	\$ 1,886,326	
Estimated indirect costs	<u>1,354,747</u>	
Total construction code expenses		<u>(3,241,073)</u>
Net shortfall for the year ended June 30, 2008		<u>(1,786,588)</u>
Cumulative shortfall at June 30, 2008		<u><u>\$ (5,499,934)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the City Council in accordance with Public Act 20 of 1948, as amended, authorizes investments in U.S. Treasuries, U.S. agencies and instrumentalities (date specific maturities only), non-negotiable certificates of deposits, commercial paper (rated A2/P2 or above), bankers' acceptances, repurchase agreements, overnight deposits, or mutual funds. For overnight deposits, the treasurer may invest overnight or short-term liquid assets to cover cash flow requirements in the following types of pools: investment pools organized under the Surplus Funds Investment Pool Act of 1982, PA 367, I MCL 129.111 to MCL 129.118, or investment pools organized under the Urban Cooperation Act of 1967, PA 7, MCL 124.501 to 124.512. For mutual funds, the treasurer may invest in no-load fixed income mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan, either taxable or tax-exempt. This authorization is limited to mutual funds whose intent is to maintain a net asset value of \$1.00 per share.

The Pension Trust Funds and the Retiree Medical Benefits Fund are also authorized to invest in certain reverse purchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (limited to 5 percent of the trust fund's assets if total assets are less than \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated one bank for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail as follows.

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the City had \$11,057,786 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, none of the City's investments were subject to custodial credit risk due to one of the following:

- Investments were part of an insured pool
- Investments were book-entry only in the name of the City and were fully insured
- Investments were part of a mutual fund
- Investments were held by an agent in the City's name

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy is very specific as it relates to investment maturities, as indicated in the table below.

Instrument	Maturity Maximum
U.S. Treasuries	10 years
U.S. agencies and instrumentalities (date specific maturities only)	10 years
CDs (non-negotiable)	20% to 1 year, 20% to 270 days
Commercial paper (rated A1 or equivalent)	270 days
Banker's acceptances	184 days
Repurchase agreements	60 days (collateral 10 years for treasuries, 7 years for instrumentalities)

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

At year end, the average maturities of investments are as follows:

Investment	Fair Value	Average Maturity
Government-wide		
Commercial paper	\$ 32,877,100	.13 years
U.S. government agencies	36,737,250	5.44 years
General Employees' Retirement System		
Corporate bonds	28,113,441	4.20 years
Foreign bonds	1,107,665	4.33 years
U.S. government agencies	82,615	6.45 years
U.S. government obligations	9,706,027	2.52 years
Municipal obligations	992,078	2.77 years
Police and Fire Retirement System		
Corporate bonds	59,488,453	4.50 years
Foreign bonds	2,327,176	4.60 years
U.S. government agencies	102,054	6.45 years
U.S. government obligations	9,582,583	5.98 years
Municipal obligations	1,613,898	7.78 years
Retiree Medical Benefits		
Corporate bonds	808,942	4.57 years
U.S. government agencies	3,029,885	4.59 years
U.S. government obligations	999,446	5.00 years

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

Credit Risk - In compliance with state law, the City's investment policy limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Organization
Government-wide			
Pooled funds	\$ 12,249,068	AAA	S&P
Pooled funds	1,009,296	AAAm	S&P
Commercial paper	20,901,500	A1	S&P
Commercial paper	11,975,600	A2	S&P
U.S. government agencies	36,737,250	AAA	S&P
General Employees' Retirement System			
U.S. government agencies	82,615	A+	S&P
Municipal obligations	225,052	AA	Fitch
Municipal obligations	580,003	A to A-	S&P
Municipal obligations	187,023	BBB	Fitch
Corporate bonds	16,958,865	AAA	S&P, Fitch, Moody
Corporate bonds	2,245,960	AA to AA-	S&P, Moody
Corporate bonds	3,122,372	A to A-	S&P, Moody
Corporate bonds	5,786,240	BBB to BBB-	S&P, Fitch
Corporate bonds	4	C	Fitch
Foreign bonds	1,107,665	BBB+ to BBB-	S&P
Police and Fire Retirement System			
U.S. government agencies	102,054	A+	S&P
Municipal obligations	1,433,039	AAA	S&P, Moody
Municipal obligations	180,859	AA+	S&P
Corporate bonds	46,683,980	AAA	S&P, Fitch, Moody
Corporate bonds	2,633,427	AA to AA-	S&P, Fitch, Moody
Corporate bonds	2,629,567	A+ to A-	S&P, Fitch, Moody
Corporate bonds	7,541,471	BBB to BBB-	S&P, Fitch
Corporate bonds	8	C	Fitch
Foreign bonds	1,144,602	A+ to A-	S&P, Fitch
Foreign bonds	1,182,574	BBB to BBB-	S&P, Moody
Retiree Medical Benefits			
Pooled funds	580,223	AAA	S&P
U.S. government agencies	3,029,885	AAA	S&P
Corporate bonds	73,852	AAA	S&P
Corporate bonds	274,360	AA+ to AA-	S&P
Corporate bonds	423,082	A1+ to A-	S&P
Corporate bonds	37,648	BBB+ to BBB-	S&P

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

Through its investment policy, the City places a 5 percent limit on the amount the City may invest in any one issuer.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system restricts the amount of investments in foreign currency denominated investments to 5 percent of total pension system investments.

Both pension systems include exposure to the international asset class in order to increase diversification and reduce risk. The investments held by the General Employees and Police and Fire Pension International managers are protected from foreign currency risk through the use of ADRs (American Depositary Receipts).

Retirement Investments

Securities Lending Transactions - The General Employees' Retirement System and the Police and Fire Retirement System (collectively referred to as the "Systems") have entered into securities lending transactions whereby loans of securities are made to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. State statutes permit participation in securities lending transactions and the Systems have authorized the custodians of their securities to lend securities to broker-dealers and banks pursuant to a formal loan agreement. At June 30, 2008, the Systems have no credit risk exposure to the borrowers because the amounts the Systems owe the borrowers exceed the amount the borrowers owe the Systems.

During the year, security loans were made at the discretion of the Systems' custodial bank and United States currency was received as collateral. Borrowers were required to deliver collateral for each loan equal to but not less than 100 percent of the market value of the loaned securities. The Systems did not impose any restrictions during the past year on the amount of loans that the lending agents could make on their behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon. In addition, there were no losses during the past year resulting from default of the borrowers. Contracts with the lending agents require them to indemnify the Systems if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Systems for income distributions by the securities' issuers while the securities are on loan.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

All securities loans can be terminated on demand by either the Systems or the borrower. The cash collateral received on each loan was invested, together with the cash collateral of the other lenders, in a pool. The average duration of such investment pools as of June 30, 2008 was 94 days. Their duration did not generally match the duration of the loans because the loans could be terminated on demand. The total amount of collateral held and the fair values of the underlying securities for the Systems as of June 30, 2008 were \$31,483,748 and \$30,557,160, respectively.

Note 4 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 45,268,610	\$ 145,618	\$ -	\$ 45,414,228
Construction in progress	5,154,182	2,711,871	(4,196,660)	3,669,393
Works of art	306,751	30,000	-	336,751
Net capital assets - Nondepreciable	50,729,543	2,887,489	(4,196,660)	49,420,372
Capital assets being depreciated:				
Building and building improvements	31,660,699	2,032,909	-	33,693,608
Improvements other than buildings	5,982,807	332,925	(24,914)	6,290,818
Equipment	35,472,418	2,497,832	(873,711)	37,096,539
Furnishings and fixtures	1,383,768	30,587	(31,677)	1,382,678
Infrastructure	224,871,536	3,952,722	-	228,824,258
Subtotal	299,371,228	8,846,975	(930,302)	307,287,901
Accumulated depreciation:				
Building and building improvements	10,022,443	721,562	1,321	10,745,326
Improvements other than buildings	1,333,995	201,676	(6,311)	1,529,360
Equipment	20,851,400	2,815,004	(564,383)	23,102,021
Furnishings and fixtures	1,081,403	39,887	(23,429)	1,097,861
Infrastructure	104,587,084	7,926,590	-	112,513,674
Subtotal	137,876,325	11,704,719	(592,802)	148,988,242
Net capital assets being depreciated	161,494,903	(2,857,744)	(337,500)	158,299,659
Net governmental capital assets	\$ 212,224,446	\$ 29,745	\$ (4,534,160)	\$ 207,720,031

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Capital Assets (Continued)

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 64,871	\$ -	\$ -	\$ 64,871
Construction in progress	2,224,187	661,035	(2,059,939)	825,283
Net capital assets - Nondepreciable	2,289,058	661,035	(2,059,939)	890,154
Capital assets being depreciated:				
Building and building improvements	422,633	-	-	422,633
Improvements other than buildings	11,391	-	-	11,391
Equipment	2,642,261	267,354	(73,550)	2,836,065
Furnishings and fixtures	27,030	1,200	-	28,230
Water and sewer mains	219,130,998	4,121,786	-	223,252,784
Subtotal	222,234,313	4,390,340	(73,550)	226,551,103
Accumulated depreciation:				
Building and building improvements	195,445	8,950	-	204,395
Improvements other than buildings	11,391	-	-	11,391
Equipment	1,472,431	244,335	(69,694)	1,647,072
Furnishings and fixtures	17,550	1,875	-	19,425
Water and sewer mains	85,413,495	4,421,860	-	89,835,355
Subtotal	87,110,312	4,677,020	(69,694)	91,717,638
Net capital assets being depreciated	135,124,001	(286,680)	(3,856)	134,833,465
Net business-type capital assets	\$ 137,413,059	\$ 374,355	\$ (2,063,795)	\$ 135,723,619

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 439,365
Public safety	1,782,554
Public works	8,481,472
Recreation and culture	959,521
41A District Court	41,807
Total governmental activities	\$ 11,704,719
Business-type activities - Water and Sewer	\$ 4,677,020

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects at year end. The projects are related to the Unlimited Tax General Obligation Fire Station Improvement bond issue discussed in Note 7. At year end, the City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Fire station renovations	\$ 345,458	\$ 3,556,597

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances in the fund-level financial statements is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major Roads Fund	\$ 95,169
	General Improvements Fund	31,997
	Water and Sewer Fund	173,130
	Nonmajor governmental funds	<u>194,923</u>
	Total General Fund	495,219
Road Bond Construction Fund	General Fund	93,077
Self-insurance Fund	General Fund	1,133,418
Nonmajor governmental funds	General Fund	<u>1,561</u>
	Total	<u><u>\$ 1,723,275</u></u>

Interfund balances represent routine and temporary cash flow assistance from the General Fund until amounts are transferred from fund investment accounts.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers Reported in the Fund Statements

Fund Transferred From	Fund Transferred To	Amount
General Fund	Major Roads Fund	\$ 800,000
	General Improvements Fund	1,534,500
	Nonmajor governmental funds	1,635,200
	Total	3,969,700
Major Roads Fund	Road Bond Debt Retirement	2,600,200
	Road Bond Construction Fund	200,000
	Nonmajor governmental funds	1,000,000
	Nonmajor governmental funds	3,800,200
Proprietary Funds -		
Governmental activity	Nonmajor governmental funds	1,518,340
Nonmajor governmental funds	General Fund	96,371
	Nonmajor governmental funds	331,559
	Total	427,930
	Total	\$ 9,716,170

The transfer from the General Fund to the Major Roads Fund represents the transfer of unrestricted resources for road projects; the transfer from the General Fund to the General Improvements Fund represents unrestricted resources for capital projects; and the transfers from the General Fund to the nonmajor governmental funds represent unrestricted resources for current local road repair and replacement programs and debt service payments.

The transfer from the Major Roads Fund to the Road Bond Debt Retirement Fund represents funding of current debt service. The transfer from the Major Roads Fund to the Road Bond Construction Fund represents unrestricted resources for capital projects. Transfers from the Major Roads Fund to the nonmajor governmental funds represent funding of local road maintenance.

Transfers from the Proprietary Funds - Governmental activity to the nonmajor governmental funds represent funding for current debt service payments.

Transfers from the nonmajor governmental funds to the General Fund represent funding of current grant-related expenditures and the transfer to nonmajor governmental funds represents unrestricted resources for current debt service payments.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Deferred Revenue

Governmental funds report unearned revenue in connection with receivables and deposits for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Due from Macomb County (Note 8)	\$ 2,003,760	\$ -
Loans receivable - Rehabilitation	-	1,777,570
Special assessments	3,650,853	-
Other deposits	<u>48,936</u>	<u>410,380</u>
Total	<u>\$ 5,703,549</u>	<u>\$ 2,187,950</u>

Note 7 - Long-term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities					
General Obligation Bonds:					
1997 Unlimited Tax Road Bonds:					
Amount of Issue - \$1,850,000					
Maturing through 2007					
Interest Rate 5.10%					
Principal Maturity \$225,000	\$ 225,000	\$ -	\$ (225,000)	\$ -	\$ -
1998 Unlimited Tax Road Bonds:					
Amount of Issue - \$2,775,000					
Maturing through 2007					
Interest Rate 3.75%					
Principal Maturity \$375,000	375,000	-	(375,000)	-	-
1999 Unlimited Tax Road Bonds:					
Amount of Issue - \$2,700,000					
Maturing through 2008					
Interest Rate Ranges 4.05% - 4.10%					
Principal Maturity \$350,000	700,000	-	(350,000)	350,000	350,000
1999 Michigan Transportation Fund Bonds:					
Amount of Issue - \$5,250,000					
Maturing through 2013					
Interest Rate Ranges 4.10% - 4.65%					
Principal Maturity Range \$400,000 - \$600,000	3,300,000	-	(300,000)	3,000,000	400,000
2000 Building Authority Bonds City Center Commons:					
Amount of Issue - \$3,700,000					
Maturing through 2019					
Interest Rate 5.375%					
Principal Maturity \$175,000	325,000	-	(150,000)	175,000	175,000
2000 Michigan Transportation Fund Bonds:					
Amount of Issue - \$4,225,000					
Maturing through 2014					
Interest Rate 5.25%					
Principal Maturity \$200,000	200,000	-	(200,000)	-	-
2002 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$4,840,000					
Maturing through 2009					
Interest Rate Ranges 3.30% - 3.50%					
Principal Maturity Range \$330,000 - \$750,000	1,820,000	-	(740,000)	1,080,000	750,000
2003 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$3,050,000					
Maturing through 2013					
Interest Rate Ranges 2.50% - 3.60%					
Principal Maturity Range \$245,000 - \$500,000	2,325,000	-	(400,000)	1,925,000	470,000
2003 Building Authority Refunding Bonds:					
Amount of Issue - \$2,025,000					
Maturing through 2010					
Interest Rate Ranges 2.40% - 2.75%					
Principal Maturity Range \$380,000 - \$395,000	1,100,000	-	(325,000)	775,000	380,000

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
General Obligation Bonds (Continued):					
2004 Judgment Bonds:					
Amount of Issue - \$24,395,000					
Maturing through 2015					
Interest Rate Ranges 3.50% - 5.375%					
Principal Maturity Range \$1,085,000 - \$2,260,000	\$ 12,845,000	\$ -	\$ (930,000)	\$ 11,915,000	\$ 1,045,000
2005 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$3,285,000					
Maturing through 2014					
Interest Rate Ranges 3.25% - 4.125%					
Principal Maturity Range \$330,000 - \$1,000,000	3,215,000	-	(35,000)	3,180,000	330,000
2005 Limited Tax Refunding Bonds:					
Amount of Issue - \$2,820,000					
Maturing through 2019					
Interest Rate Ranges 3.50% - 5.00%					
Principal Maturity Range \$25,000 - \$600,000	2,770,000	-	(25,000)	2,745,000	25,000
2005 Michigan Transportation Fund Bonds:					
Amount of Issue - \$5,300,000					
Maturing through 2019					
Interest Rate Ranges 3.25% - 4.25%					
Principal Maturity Range \$125,000 - \$625,000	5,100,000	-	(125,000)	4,975,000	125,000
2007 Michigan Transportation Fund Bonds:					
Amount of Issue - \$4,650,000					
Maturing through 2021					
Interest Rate Ranges 3.70% - 4.00%					
Principal Maturity Range \$100,000 - \$1,000,000	4,650,000	-	(100,000)	4,550,000	100,000
2007 Limited Tax Capital Improvement Bonds:					
Amount of Issue - \$3,250,000					
Maturing through 2012					
Interest Rate 4.00%					
Principal Maturity Range \$325,000 - \$600,000	3,250,000	-	(575,000)	2,675,000	575,000
2008 Unlimited Tax Fire Station Improvements:					
Amount of Issue - \$5,000,000					
Maturing through 2023					
Interest Rate Ranges 3.00% - 4.00%					
Principal Maturity Range \$100,000 - \$600,000	-	5,000,000	-	5,000,000	100,000
County Drain Contract Obligations:					
Busch Drain Drainage District:					
Amount of Issue - \$1,250,000					
Maturing through 2014					
Interest Rate Ranges 4.30% - 4.55%					
Principal Maturity Range \$100,000 - \$125,000	750,000	-	(100,000)	650,000	100,000
Hawken Drain Drainage District:					
Amount of Issue - \$795,000					
Maturing through 2015					
Interest Rate Ranges 4.80% - 5.25%					
Principal Maturity Range \$50,000 - \$75,000	450,000	-	(50,000)	400,000	50,000

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
County Drain Contract Obligations (Continued):					
Hayes Drain Drainage District:					
Amount of Issue - \$1,095,000					
Maturing through 2015					
Interest Rate Ranges 4.75% - 5.20%					
Principal Maturity Range \$75,000 - \$150,000	\$ 800,000	\$ -	\$ (75,000)	\$ 725,000	\$ 75,000
Plumbrook Bridge Replacement Drain Drainage District:					
Amount of Issue - \$2,800,000					
Maturing through 2015					
Interest Rate Ranges 4.00% - 5.00%					
Principal Maturity Range \$100,000 - \$275,000	1,875,000	-	(175,000)	1,700,000	200,000
17 Mile Extension Drain Drainage District:					
Amount of Issue - \$1,725,000					
Maturing through 2016					
Interest Rate Ranges 3.75% - 4.50%					
Principal Maturity Range \$125,000 - \$150,000	1,225,000	-	(100,000)	1,125,000	125,000
Sterling Relief Lateral 12B Drainage District:					
Amount of Issue - \$885,000					
Maturing through 2013					
Interest Rate Ranges 2.65% - 3.90%					
Principal Maturity Range \$90,000 - \$115,000	590,000	-	(85,000)	505,000	90,000
17 Mile Road Drain and Branches Refunding Bonds					
Amount of Issue - \$2,315,000					
Maturing through 2013					
Interest Rate Ranges 3.00% - 3.70%					
Principal Maturity Range \$265,000 - \$290,000	1,635,000	-	(245,000)	1,390,000	265,000
Total bond obligations	49,525,000	5,000,000	(5,685,000)	48,840,000	5,730,000
Other long-term obligations:					
Provision for uninsured losses and other liabilities	2,931,956	6,121,765	(5,947,498)	3,106,223	794,398
Compensated absences - General Fund obligations	4,694,323	1,667,166	(1,297,781)	5,063,708	898,267
Total other long-term obligations	7,626,279	7,788,931	(7,245,279)	8,169,931	1,692,665
Total governmental activities	57,151,279	12,788,931	(12,930,279)	57,009,931	7,422,665
Business-type Activities - Water and Sewer					
Fund obligations - Compensated absences	209,758	25,260	(35,564)	199,454	135,773
Total	\$ 57,361,037	\$ 12,814,191	\$ (12,965,843)	\$ 57,209,385	\$ 7,558,438

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2009	\$ 5,730,000	\$ 1,914,505	\$ 7,644,505
2010	5,435,000	1,752,957	7,187,957
2011	5,155,000	1,549,539	6,704,539
2012	5,275,000	1,332,551	6,607,551
2013	5,415,000	1,105,066	6,520,066
2014-2018	15,360,000	2,705,876	18,065,876
2019-2023	6,470,000	601,876	7,071,876
Total	<u>\$ 48,840,000</u>	<u>\$ 10,962,370</u>	<u>\$ 59,802,370</u>

During the year, the City issued \$5,000,000 in new Unlimited Tax General Obligation Fire Station Improvement bonds with an average coupon (interest) rate of 3.72 percent. These bonds were issued pursuant to a favorable vote of the electors of the City of Sterling Heights held on November 7, 2006. The bonds mature from 2009 through 2023 and carry coupons ranging from 3.00 percent to 4.00 percent. The bonds were sold at a premium of \$50,143, which was deposited in the Debt Service Fund to pay future interest costs. The net proceeds of \$4,926,771 (after payment of \$73,229 in issuance costs) are being used to pay the costs associated with repairing, reconstructing, remodeling, expanding, and improving three of the City's five fire stations (Stations 2, 3, and 4).

Additionally, in prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the bonds. Accordingly, trust account assets and related liability for defeased bonds are not included in the general purpose financial statements. At June 30, 2008, the City's portion of bonds outstanding considered defeased totals \$11,775,000.

Subsequent to Year End

Subsequent to year end, the City issued Special Assessment Limited Tax General Obligation Bonds totaling \$3,260,000. The payments begin in 2009 and mature in 2028 with interest ranging from 3.5 percent to 4.5 percent.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 8 - Restricted Assets

Specific assets of the Water and Sewer Fund have been restricted by ordinance which requires the City to set aside a sum sufficient to provide for the subsequent quarter's expenses for operations, maintenance, and replacement. Specific assets of the General Improvements Fund are restricted as the result of an external government issuing bonds for which state law requires the proceeds of the issue to be used exclusively for the purpose the bonds were issued or the repayment of the bonds. Following is the detail of restricted assets at June 30, 2008:

Water and Sewer Fund:	
Cash and cash equivalents	\$ 1,000,000
Investments	<u>6,522,330</u>
Total Water and Sewer Fund	7,522,330
General Improvements Fund - Due from Macomb County*	
(Note 6)	<u>2,003,760</u>
Total restricted assets	<u><u>\$ 9,526,090</u></u>

* This amount is held by Macomb County in Construction and Debt Retirement Funds maintained on behalf of the City by the Macomb County Department of Public Works for drain construction projects of the City. There are no current liabilities payable from restricted assets.

Note 9 - Loans Receivable

The City utilizes Community Development Block Grant funds to provide housing rehabilitation loans to eligible applicants. Such loans are made to low and moderate-income persons to improve or rehabilitate residences. The City accounts for this program in the Special Revenue Community Development Block Grant Fund. Loans receivable of \$1,777,570 at June 30, 2008 have been reflected in the accompanying fund financial statements as rehabilitation loans receivable with an offsetting deferred revenue for the recording of related grant funding.

Note 10 - Risk Management

The City is exposed to various risks of loss related to property loss, errors and omissions, and employee injuries (workers' compensation and short-term disability), as well as medical benefits provided to employees. The City is self-funded for all of these claims up to a retention amount, at which time the City's reinsurance coverage begins. Settled claims did not exceed the amount of reinsurance coverage for any of the last three years.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Risk Management (continued)

Property Liability

The City purchased reinsurance through Arthur J. Gallagher and Company, an international insurance brokerage firm.

It is estimated, based on past experience, that \$1,557,745 will be paid for all claims reported to date and \$579,862 will be paid for claims incurred but not reported. The estimated liability for reported and incurred but not reported claims has been recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2008	2007
Estimated liability - Beginning of year	\$ 2,068,260	\$ 2,489,791
Estimated claims incurred, including changes in estimates	329,062	(252,856)
Claim payments	(259,715)	(168,675)
Estimated liability - End of year	<u>\$ 2,137,607</u>	<u>\$ 2,068,260</u>

Medical Claims and Short-term Disability

As of April 1, 1989, the City became self-insured for Blue Cross/Blue Shield equivalent healthcare coverage. Under the program, the City is liable for claims up to a retention amount of \$200,000 per active and retired employee (including dependents) for the contract year ended June 30, 2008. At January 1, 1990, the City became self-insured for short-term disability.

It is estimated, based on past experience, that \$42,106 will be paid for all claims reported to date and \$1,223,830 will be paid for claims incurred but not reported. This amount and all other transactions with respect to active employee medical and short-term disability claims are reflected in the Self-insurance Internal Service Fund. Retired employee medical claims are reflected in the Retiree Medical Benefits Fiduciary Fund. Changes in the estimated liability for the past two fiscal years are as follows:

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Risk Management (Continued)

	Self-insurance Internal Service Fund	
	2008	2007
Estimated liability - Beginning of year	\$ 715,365	\$ 1,124,472
Estimated claims incurred, including changes in estimates	5,379,613	4,898,507
Claim payments	(5,456,503)	(5,307,614)
Estimated liability - End of year	<u>\$ 638,475</u>	<u>\$ 715,365</u>
	Retiree Medical Benefits Fund	
	2008	2007
Estimated liability - Beginning of year	\$ 530,412	\$ 774,285
Estimated claims incurred, including changes in estimates	5,121,699	3,999,425
Claim payments	(5,024,650)	(4,243,298)
Estimated liability - End of year	<u>\$ 627,461</u>	<u>\$ 530,412</u>

Workers' Compensation

On July 1, 1992, the City became self-insured for workers' compensation claims. Under the program, the City is liable for the first \$150,000 of any occurrence. The City has purchased excess insurance to cover claims greater than \$150,000. At June 30, 2008, it was estimated, based on past experience, that \$330,141 will be paid in total for both claims reported to date and claims incurred but not reported. This estimated liability for claims reported to date has been recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Risk Management (Continued)

	2008	2007
Estimated liability - Beginning of year	\$ 148,331	\$ 226,948
Estimated claims incurred, including changes in estimates	413,090	152,007
Claim payments	(231,280)	(230,624)
Estimated liability - End of year	<u>\$ 330,141</u>	<u>\$ 148,331</u>

Note 11 - Defined Benefit Pension Plans

Plan Description

The City participates in two retirement plans, the General Employees' Retirement System and the Police and Fire Retirement System. The General Employees' Retirement System and the Police and Fire Retirement Boards are the administrators of single-employer defined benefit public employee retirement systems that cover substantially all general employees and police and fire employees, respectively. The plans do not issue separate financial statements.

General Employees' Retirement System - This system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2007, the date of the most recent actuary report, membership consisted of 223 retirees, beneficiaries, alternative payees currently receiving benefits, 15 terminated employees entitled to benefits but not yet receiving them, and 268 current active employees.

Police and Fire Retirement System - This system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2007, the date of the most recent actuary report, membership consisted of 247 retirees, beneficiaries, alternate payees currently receiving benefits, no terminated employees entitled to benefits but not yet receiving them, and 271 current active employees including drop participants.

Note 11 - Defined Benefit Pension Plans (Continued)

Contributions and Funding Policy

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Please refer to Note 1 for further significant accounting policies.

General Employees' Retirement System - The obligation to contribute to and maintain this system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from substantially all employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through the General Fund.

Police and Fire Retirement System - The obligation to contribute to and maintain this system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from substantially all employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Costs

General Employees' Retirement System - For the fiscal year ended June 30, 2008, the City had no required pension contributions (exclusive of administrative costs of approximately \$728,800). The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return and (b) projected salary increases of 5.0 percent to 13.5 percent per year. Both (a) and (b) include an inflation component of 4.5 percent and were determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 16 years.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 11 - Defined Benefit Pension Plans (Continued)

Police and Fire Retirement System - For the fiscal year ended June 30, 2008, the City's annual pension cost of \$1,707,910 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return and (b) projected salary increases of 1.0 percent to 17.0 percent per year. Both (a) and (b) include an inflation component of 4 percent and were determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 20 years.

The pension cost for the three most recent years is as follows:

	Year Ended		
	2006	2007	2008
General Employees' Retirement System:			
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 2,993,592	\$ 2,646,459	\$ 1,707,910
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Funded Status and Funding Progress

The schedules of funding progress, presented as Required Supplemental Information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of the plan's assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

General Employees' Retirement System - As of December 31, 2007, the most recent actuarial valuation date, the plan was 125.2 percent funded. The actuarial accrued liability for benefits was \$102.0 million, and the actuarial value of assets was \$127.7 million, resulting in an over-funded actuarial accrued liability of \$25.7 million. The covered payroll (annual payroll for active employees covered by the plan) was \$15.4 million, and the ratio for the over-funded actuarial accrued liability to the covered payroll was 166.6 percent.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 11 - Defined Benefit Pension Plans (Continued)

As of June 30, 2008 the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 9,607,097
Reserve for retired benefit payments	46,117,631

Police and Fire Retirement System - As of December 31, 2007, the most recent actuarial valuation date, the plan was 124.8 percent funded. The actuarial accrued liability for benefits was \$170.2 million, and the actuarial value of assets was \$212.4 million, resulting in an over-funded actuarial accrued liability of \$42.2 million. The covered payroll (annual payroll for active employees covered by the plan) was \$21.0 million, and the ratio for the over-funded actuarial accrued liability to the covered payroll was 201.0 percent.

As of June 30, 2008 the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 16,061,103
Reserve for retired benefit payments	109,034,904

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 11 - Defined Benefit Pension Plans (Continued)

Statement of Net Assets

	General Employees' Retirement System	Police and Fire Retirement System
Assets		
Cash and cash equivalents	\$ 3,937,099	\$ 4,484,912
Investments - At fair value:		
U.S. government securities	10,780,720	11,298,535
Corporate bonds	29,221,106	61,815,629
Common and preferred stocks	81,432,230	108,339,986
Pooled investments	-	10,667,685
Receivables - Accrued interest	315,974	600,351
Total assets	125,687,129	197,207,098
Liabilities		
Accounts payable	411,374	1,268,335
Accrued and other liabilities	1,323,462	3,024,022
Deferred revenue	3,238	-
Total liabilities	1,738,074	4,292,357
Net Assets - Held in trust for pensions	<u>\$ 123,949,055</u>	<u>\$ 192,914,741</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 11 - Defined Benefit Pension Plans (Continued)

Statement of Changes in Net Assets

	General Employees' Retirement System	Police and Fire Retirement System
Additions		
Investment income (loss):		
Interest and dividends	\$ 3,683,481	\$ 6,738,177
Net adjustment to fair value of investments	(4,682,633)	(11,762,802)
Less investment expenses	-	(1,098,537)
Net investment income	(999,152)	(6,123,162)
Securities lending income:		
Interest and fees	506,353	846,518
Less borrower rebates and bank fees	(449,298)	(750,590)
Net securities lending income	57,055	95,928
Contributions:		
Employer	-	1,707,910
Employee	814,900	1,136,194
Purchase of prior year's service credits	21,302	1,610,619
Total additions	(105,895)	(1,572,511)
Deductions		
Benefit payments	4,852,259	13,434,359
Refunds of contributions	535,731	678,660
Total deductions	5,387,990	14,113,019
Change in Net Assets	(5,493,885)	(15,685,530)
Net Assets - Beginning of year	129,442,940	208,600,271
Net Assets - End of year	<u>\$ 123,949,055</u>	<u>\$ 192,914,741</u>

Note 12 - Defined Contribution Pension Plan

The City provides pension benefits to all new employees, except for emergency dispatchers, through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council Resolution, the City contributes 7 percent of employees' base wages, while the employees contribute a minimum of 5 percent of gross wages to the employee's individual accounts. The City's contributions to the employees' accounts including investment earnings are fully vested after five years of service. In accordance with these requirements, the City contributed \$280,079 during the current year and employees contributed \$238,707.

Note 13 - Postemployment Benefits

Plan Description - The City provides other postemployment benefits to eligible employees and their spouses through the Sterling Heights Retiree Medical Benefits Plan Trust. At December 31, 2006, the date of the most recent actuary report, the plan has 990 members (including employees in active service and retirees or beneficiaries currently receiving benefits). Of those members, 347 general and 262 police and fire retirees are currently eligible.

This is a single employer defined benefit plan administered by the City. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions. The benefits are provided for employees who satisfy applicable service retirement eligibility as contained in collectively bargained labor agreements. Health and life insurance benefits are provided to all public safety and general employees and their spouses. Additionally, public safety employees and their spouses are provided with dental benefits.

Funding Policy - For current employees, the City includes pre-Medicare retirees and their spouses in its healthcare plan, with no contribution required by participants. However, as of June 30, 2008, labor contracts include a clause that requires new employees to contribute 50 percent of the monthly retiree healthcare coverage premium upon retirement except for the U.A.W. Professional and Technical Employees Union, which requires employees hired after July 1, 2003 to contribute 25 percent and for employees hired after July 1, 2008 to contribute 60 percent of the monthly retiree premium.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 13 - Postemployment Benefits (Continued)

The City purchases Medicare supplemental insurance for retirees eligible for Medicare. The cost of retiree healthcare benefits is reflected in the Retiree Medical Benefits Fund, which was established during the 1989 fiscal year when the City began to prefund these benefits. During the current year, the contribution amounted to \$10,061,380, which was funded by the General and Water and Sewer Funds, and healthcare benefits paid totaled \$5,597,039.

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of December 31, 2006:

Actuarial value of assets	\$ 12,505,499
Actuarial value of liability	142,965,082
Unfunded AAL	130,459,583
Funded ratio	8.70%
Annual covered payroll	\$ 43,561,711
Ratio of UAAL to covered payroll	3.0 to 1.0

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrences of events into the future. As a result, the amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to revision as actual results are compared to past expectations and new estimates are formulated about the future. The scheduling of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note 13 - Postemployment Benefits (Continued)

In the December 31, 2006 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included an 8.0 percent rate of return on investments (net of applicable expenses identified above) which was based on the historical rate of return achieved by the asset mix used within the plan. An annual healthcare cost trend of 10 percent was used in fiscal 2008 grading to 4.5 percent in fiscal 2017 and thereafter. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using the market value of the assets at the date of the valuation. The UAAL is being amortized as a level percent of projected on an open basis. The remaining amortization period as of December 31, 2006 was 30 years.

Upcoming Reporting Change - The Governmental Accounting Standards Board recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing other postemployment benefit coverage over the working life of the employee, rather than at the time the benefit premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 13 - Postemployment Benefits (Continued)

Statement of Net Assets

	Retiree Medical Benefits
Assets	
Cash and cash equivalents	\$ 580,223
Investments - At fair value:	
Government securities	4,029,331
Corporate bonds	808,942
Common and preferred stocks	13,664,297
Total assets	19,082,793
Liabilities	
Accounts payable	541
Accrued and other liabilities	8,475
Due to other governmental units	478,946
Provision for uninsured losses and liabilities	627,461
Total liabilities	1,115,423
Net Assets - Held in trust for other retirement benefits	<u><u>\$ 17,967,370</u></u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 13 - Postemployment Benefits (Continued)

Statement of Changes in Net Assets

	Retiree Medical Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 424,553
Net adjustment to fair value of investments	(605,170)
Less investment expenses	<u>(119,835)</u>
Net investment income	(300,452)
Contributions - Employer	10,061,380
Insurance recovery	<u>116,401</u>
Total additions	9,877,329
Deductions - Benefit payments	<u>5,597,039</u>
Net Change in Net Assets	4,280,290
Net Assets - Beginning of year	<u>13,687,080</u>
Net Assets - End of year	<u><u>\$ 17,967,370</u></u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2008

Note 14 - Designated Fund Balance

The following is a summary of the unreserved fund balances of the governmental funds with management's designation:

Designated for	Funds					
	General	Major Roads	Debt Retirement	General Improvements	Road Bond Construction	Nonmajor
Debt service	\$ -	\$ -	\$ 23,747	\$ -	\$ -	\$ 68,694
Capital improvement	-	3,568,159	-	1,892,919	118,426	1,600,685
Park improvements	-	-	-	-	-	591,426
Public safety	-	-	-	-	-	440,344
Subsequent year's expenditures	<u>1,803,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total designated	<u>\$ 1,803,400</u>	<u>\$ 3,568,159</u>	<u>\$ 23,747</u>	<u>\$ 1,892,919</u>	<u>\$ 118,426</u>	<u>\$ 2,701,149</u>
Undesignated	<u>\$ 12,845,946</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 750,000</u>

The following is a summary of the unrestricted net assets of the proprietary fund with management's designation:

Designated for	Enterprise Fund - Water and Sewer
Capital improvement	<u>\$ 2,540,000</u>
Undesignated	<u>\$ 26,797,877</u>

Required Supplemental Information

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 15,717,895	\$ 15,717,895	\$ 15,717,895	\$ -
Resources (Inflows)				
Property taxes	50,247,330	50,277,000	50,198,476	(78,524)
Refuse taxes	4,372,600	4,372,600	4,359,680	(12,920)
Police and fire pension taxes	1,707,910	1,707,910	1,707,910	-
Federal, state, and local returns	11,624,300	11,674,600	11,663,061	(11,539)
Licenses and permits	1,884,700	1,408,700	1,352,594	(56,106)
Fines and forfeitures	2,712,000	2,828,000	2,755,701	(72,299)
Charges for services	8,293,020	8,144,070	7,988,183	(155,887)
Cable revenue	1,420,000	1,570,000	1,671,094	101,094
Other revenue	3,870,400	4,373,020	4,298,085	(74,935)
Transfer from other funds	97,410	97,410	96,371	(1,039)
Total resources (inflows)	86,229,670	86,453,310	86,091,155	(362,155)
Charges to Appropriations (Outflows)				
41A District Court	3,008,790	2,999,780	2,974,001	25,779
City administration	8,582,980	8,580,880	8,590,120	(9,240)
Community relations	1,599,130	1,610,750	1,598,334	12,416
Police department	28,051,590	28,479,740	28,390,334	89,406
Fire department	15,771,580	15,883,310	15,845,156	38,154
City development	4,115,420	4,149,380	4,106,718	42,662
Public works department	8,267,290	8,464,360	8,545,276	(80,916)
Refuse collection	4,402,600	4,245,820	4,206,384	39,436
Parks and recreation department	2,569,210	2,539,310	2,554,032	(14,722)
Public library department	2,808,660	2,794,820	2,804,793	(9,973)
General expenditures	3,038,270	3,049,170	2,931,292	117,878
Transfers to other funds	3,981,550	3,969,700	3,969,700	-
Total charges to appropriations (outflows)	86,197,070	86,767,020	86,516,140	250,880
Fund Balance - End of year	\$ 15,750,495	\$ 15,404,185	\$ 15,292,910	\$ (111,275)

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Roads Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 2,734,897	\$ 2,734,897	\$ 2,734,897	\$ -
Resources (Inflows)				
State sources	5,325,000	5,215,000	5,152,104	(62,896)
Other	321,300	481,170	442,471	(38,699)
Federal sources	2,467,890	2,374,350	2,440,414	66,064
Transfers from other funds	800,000	800,000	800,000	-
Total resources (inflows)	8,914,190	8,870,520	8,834,989	(35,531)
Charges to Appropriations (Outflows)				
Public works:				
Administration	111,400	145,400	143,153	2,247
Routine maintenance	1,703,500	2,154,000	1,914,639	239,361
Improvements	2,241,000	2,110,760	1,402,907	707,853
Transfers to other funds	3,600,200	3,800,200	3,800,200	-
Total charges to appropriations (outflows)	7,656,100	8,210,360	7,260,899	949,461
Fund Balance - End of year	\$ 3,992,987	\$ 3,395,057	\$ 4,308,987	\$ 913,930

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress June 30, 2008

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c) Underfunded/ (Overfunded)
General Employees' Retirement System						
12/31/02	\$ 97,272,398	\$ 73,294,274	\$ (23,978,124)	132.7	\$ 14,304,432	(167.6%)
12/31/03	99,270,906	77,021,654	(22,249,252)	128.9	14,544,030	(153.0%)
12/31/04	102,510,129	82,169,717	(20,340,412)	124.8	15,251,784	(133.4%)
12/31/05	107,739,690	89,249,361	(18,490,329)	120.7	15,012,036	(123.2%)
12/31/06	118,968,737	95,810,183	(23,157,554)	124.2	15,382,785	(150.5%)
12/31/07	127,671,503	102,000,980	(25,670,523)	125.2	15,406,591	(166.6%)
Police and Fire Retirement System						
12/31/02	\$ 184,609,657	\$ 141,187,613	\$ (43,422,044)	130.8	\$ 18,595,100	(233.5%)
12/31/03	183,664,050	149,968,630	(33,695,420)	122.5	18,271,862	(184.4%)
12/31/04	187,265,961	155,818,664	(31,447,297)	120.2	19,906,323	(158.0%)
12/31/05	194,145,450	158,517,125	(35,628,325)	122.5	19,787,496	(180.1%)
12/31/06	204,756,058	156,707,512	(48,048,546)	130.7	19,837,496	(242.2%)
12/31/07	212,365,515	170,201,230	(42,164,285)	124.8	20,979,120	(201.0%)

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress (Continued) June 30, 2008

General Employees' Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution*</u>	<u>Percentage Contributed</u>
06/30/03	12/31/01	\$ -	100.0
06/30/04	12/31/02	-	100.0
06/30/05	12/31/03	-	100.0
06/30/06	12/31/04	-	100.0
06/30/07	12/31/05	-	100.0
06/30/08	12/31/06	-	100.0

Police and Fire Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution*</u>	<u>Percentage Contributed</u>
06/30/03	12/31/01	\$ 2,747,983	100.0
06/30/04	12/31/02	3,545,592	100.0
06/30/05	12/31/03	4,204,831	100.0
06/30/06	12/31/04	2,993,592	100.0
06/30/07	12/31/05	2,646,459	100.0
06/30/08	12/31/06	1,707,910	100.0

* The required contribution is expressed to the City as a percentage of payroll.

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress (Continued) June 30, 2008

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2007, the latest actuarial valuation, follows:

General Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	16 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	5.0% - 13.5%
*Includes inflation at	4.5%
Cost of living adjustments	None

Police and Fire Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	20 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	1.0% - 17.0%
*Includes inflation at	4.0%
Cost of living adjustments	None

An additional \$800 will be paid to pre-07/01/94 COA and fire retirees and \$500 for pre-07/01/93 MAP retirees each January 1 following the year of service retirement, or converted service retirement, terminating upon the member's death.

City of Sterling Heights, Michigan

Note to Required Supplemental Information June 30, 2008

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds.

The City adopts its budget by budgetary center for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds, which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to April 1, the City manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to May 10, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.
- The City manager is authorized to transfer budgeted amounts within budgetary centers (activity); however, any revisions that alter the total expenditure of any budgetary center (activity) must be approved by the City Council.

Budgeted amounts of the revenues and expenditures presented for the General, Special Revenue, Debt Service, and Capital Projects Funds are a summarization of the budgeted amounts as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original appropriations that were adopted. Budget appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General and Major Special Revenue Funds is presented as required supplemental information. The budget presented as required supplemental information reflects greater detail than the amended budget adopted.

Encumbrance accounting is employed in all governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

City of Sterling Heights, Michigan

Note to Required Supplemental Information June 30, 2008

Note - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund:		
City administration	\$ 8,580,880	\$ 8,590,120
Public works department	8,464,360	8,545,276
Parks and recreation department	2,539,310	2,554,032
Public library department	2,794,820	2,804,793
Total General Fund	<u>\$ 22,379,370</u>	<u>\$ 22,494,221</u>

The General Fund had unfavorable variances in the following:

- City administration was the result of higher than anticipated personnel costs due to settled contract negotiations.
- Public works department was the result of higher than anticipated personnel costs due to increased overtime resulting from a 2008 summer storm and significantly higher fuel costs than projected.
- Parks and recreation department was the result of higher than anticipated overtime and personnel costs due to settled contract negotiations.
- Public library department was the result of higher than anticipated personnel costs due to settled contract negotiations and an unanticipated retirement at the end of the fiscal year.

Nonmajor Governmental Funds

City of Sterling Heights, Michigan

	Nonmajor Special Revenue Funds					
	Budget Stabilization	Local Roads	Land and Water Conservation	Public Safety Forfeiture	Community Development Block Grant	Total Nonmajor Special Revenue Funds
Assets						
Cash and cash equivalents	\$ 750,000	\$ 1,429,271	\$ 650,978	\$ 515,338	\$ 28	\$ 3,345,615
Receivables:						
Special assessments:						-
Current	-	34,135	-	-	-	34,135
Deferred	-	273,079	-	-	-	273,079
Accrued interest	-	18,432	-	-	-	18,432
Prepaid costs and other assets	-	-	2,508	-	-	2,508
Due from other funds	-	-	1,561	-	-	1,561
Due from other governmental units	-	305,508	-	-	48,896	354,404
Rehabilitation loans receivable	-	-	-	-	1,777,570	1,777,570
Total assets	<u>\$ 750,000</u>	<u>\$ 2,060,425</u>	<u>\$ 655,047</u>	<u>\$ 515,338</u>	<u>\$ 1,826,494</u>	<u>\$ 5,807,304</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ 9,990	\$ 63,621	\$ 38,366	\$ 32,841	\$ 144,818
Due to other funds	-	176,671	-	2,169	16,083	194,923
Deferred revenue	-	273,079	-	-	1,777,570	2,050,649
Total liabilities	-	459,740	63,621	40,535	1,826,494	2,390,390
Fund Balances						
Reserved for encumbrances	-	-	-	34,459	-	34,459
Unreserved:						
Designated for road improvements	-	1,600,685	-	-	-	1,600,685
Designated for debt service	-	-	-	-	-	-
Designated for public safety	-	-	-	440,344	-	440,344
Designated for park improvements	-	-	591,426	-	-	591,426
Undesignated	750,000	-	-	-	-	750,000
Total fund balance	<u>750,000</u>	<u>1,600,685</u>	<u>591,426</u>	<u>474,803</u>	<u>-</u>	<u>3,416,914</u>
Total liabilities and fund balances	<u>\$ 750,000</u>	<u>\$ 2,060,425</u>	<u>\$ 655,047</u>	<u>\$ 515,338</u>	<u>\$ 1,826,494</u>	<u>\$ 5,807,304</u>

Other Financial and Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

Nonmajor Debt Service Funds

General Drain	Voted Tax General Obligation	Settlement Bond	Limited Tax General Obligation	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
\$ 6,493	\$ 54,245	\$ 3,152	\$ 4,804	\$ 68,694	\$ 3,414,309
-	-	-	-	-	34,135
-	-	-	-	-	273,079
-	-	-	-	-	18,432
-	-	-	-	-	2,508
-	-	-	-	-	1,561
-	-	-	-	-	354,404
-	-	-	-	-	1,777,570
\$ 6,493	\$ 54,245	\$ 3,152	\$ 4,804	\$ 68,694	\$ 5,875,998
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 144,818
-	-	-	-	-	194,923
-	-	-	-	-	2,050,649
-	-	-	-	-	2,390,390
-	-	-	-	-	34,459
-	-	-	-	-	1,600,685
6,493	54,245	3,152	4,804	68,694	68,694
-	-	-	-	-	440,344
-	-	-	-	-	591,426
-	-	-	-	-	750,000
6,493	54,245	3,152	4,804	68,694	3,485,608
\$ 6,493	\$ 54,245	\$ 3,152	\$ 4,804	\$ 68,694	\$ 5,875,998

City of Sterling Heights, Michigan

Nonmajor Special Revenue Funds

	Budget Stabilization	Local Roads	Land and Water Conservation	Public Safety Forfeiture	Community Development Block Grant	Total Nonmajor Special Revenue Funds
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	66,319	669,547	735,866
Special assessments	-	70,207	-	-	-	70,207
State sources	-	1,947,243	3,000	266,873	-	2,217,116
Interest income	-	34,058	26,389	-	-	60,447
Other	-	76,951	-	-	-	76,951
Total revenues	-	2,128,459	29,389	333,192	669,547	3,160,587
Expenditures						
Current:						
Public safety	-	-	-	200,180	-	200,180
Public works	-	2,042,227	-	-	231,663	2,273,890
Other	-	-	-	-	-	-
Capital outlay	-	1,056,876	74,371	467,634	9,954	1,608,835
Debt service	-	-	-	-	-	-
Total expenditures	-	3,099,103	74,371	667,814	241,617	4,082,905
Excess of Revenues Over (Under) Expenditures	-	(970,644)	(44,982)	(334,622)	427,930	(922,318)
Other Financing Sources (Uses)						
Premium on bonds	-	-	-	-	-	-
Transfers in	-	1,575,000	66,300	-	-	1,641,300
Transfers out	-	-	-	-	(427,930)	(427,930)
Total other financing sources (uses)	-	1,575,000	66,300	-	(427,930)	1,213,370
Change in Fund Balances	-	604,356	21,318	(334,622)	-	291,052
Fund Balances - Beginning of year	750,000	996,329	570,108	809,425	-	3,125,862
Fund Balances - End of year	\$ 750,000	\$ 1,600,685	\$ 591,426	\$ 474,803	\$ -	\$ 3,416,914

**Other Financial and Supplemental Information
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2008**

Nonmajor Debt Service Funds					
General Drain	Voted Tax General Obligation	Settlement Bond	Limited Tax General Obligation	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
\$ 1,089,261	\$ 976,355	\$ -	\$ -	\$ 2,065,616	\$ 2,065,616
-	-	-	-	-	735,866
-	-	-	-	-	70,207
-	-	-	-	-	2,217,116
24,510	4,149	9,961	5,898	44,518	104,965
-	-	-	-	-	76,951
1,113,771	980,504	9,961	5,898	2,110,134	5,270,721
-	-	-	-	-	200,180
-	-	-	-	-	2,273,890
7,056	5,076	250	725	13,107	13,107
-	-	-	-	-	1,608,835
1,139,750	984,206	1,526,087	1,338,348	4,988,391	4,988,391
1,146,806	989,282	1,526,337	1,339,073	5,001,498	9,084,403
(33,035)	(8,778)	(1,516,376)	(1,333,175)	(2,891,364)	(3,813,682)
-	50,143	-	-	50,143	50,143
15,000	2,500	1,518,340	1,307,959	2,843,799	4,485,099
-	-	-	-	-	(427,930)
15,000	52,643	1,518,340	1,307,959	2,893,942	4,107,312
(18,035)	43,865	1,964	(25,216)	2,578	293,630
24,528	10,380	1,188	30,020	66,116	3,191,978
\$ 6,493	\$ 54,245	\$ 3,152	\$ 4,804	\$ 68,694	\$ 3,485,608

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds Year Ended June 30, 2008

Special Revenue Fund - Budget Stabilization

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 750,000	\$ 750,000	\$ 750,000	\$ -
Resources (Inflows)	-	-	-	-
Fund Balance - End of year	<u>\$ 750,000</u>	<u>\$ 750,000</u>	<u>\$ 750,000</u>	<u>\$ -</u>

Special Revenue Fund - Local Roads

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 996,329	\$ 996,329	\$ 996,329	\$ -
Resources (Inflows)				
State sources	2,005,000	1,965,000	1,947,243	(17,757)
Charges for services	50,000	25,000	21,471	(3,529)
Other	106,500	148,300	159,745	11,445
Transfer from other funds	<u>1,575,000</u>	<u>1,575,000</u>	<u>1,575,000</u>	<u>-</u>
Total resources (inflows)	3,736,500	3,713,300	3,703,459	(9,841)
Charges to Appropriations (Outflows)				
Administration	144,900	154,900	153,213	1,687
Local street maintenance	1,674,000	2,027,000	1,889,014	137,986
Local street improvements	<u>1,935,040</u>	<u>1,430,040</u>	<u>1,056,876</u>	<u>373,164</u>
Total charges to appropriations (outflows)	<u>3,753,940</u>	<u>3,611,940</u>	<u>3,099,103</u>	<u>512,837</u>
Fund Balance - End of year	<u>\$ 978,889</u>	<u>\$ 1,097,689</u>	<u>\$ 1,600,685</u>	<u>\$ 502,996</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2008

Special Revenue Fund - Land and Water Conservation

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 570,108	\$ 570,108	\$ 570,108	\$ -
Resources (Inflows)				
Federal and state sources	3,000	3,000	3,000	-
Other	195,000	30,000	26,389	(3,611)
Transfers from other funds	<u>66,300</u>	<u>66,300</u>	<u>66,300</u>	<u>-</u>
Total resources (inflows)	264,300	99,300	95,689	(3,611)
Charges to Appropriations (Outflows)				
Land acquisition	-	10,750	10,750	-
Land improvements	<u>72,300</u>	<u>67,800</u>	<u>63,621</u>	<u>4,179</u>
Total charges to appropriations (outflows)	<u>72,300</u>	<u>78,550</u>	<u>74,371</u>	<u>4,179</u>
Fund Balance - End of year	<u><u>\$ 762,108</u></u>	<u><u>\$ 590,858</u></u>	<u><u>\$ 591,426</u></u>	<u><u>\$ 568</u></u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2008

Special Revenue Fund - Public Safety Forfeiture Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 809,425	\$ 809,425	\$ 809,425	\$ -
Resources (Inflows)				
Federal justice forfeitures	-	29,730	36,878	7,148
Federal treasury forfeitures	-	-	20,228	20,228
State forfeitures	-	221,770	225,317	3,547
Other forfeitures	-	24,200	24,200	-
Interest income	-	24,860	26,569	1,709
Total resources (inflows)	-	300,560	333,192	32,632
Charges to Appropriations (Outflows)				
Federal forfeiture expenditures	131,800	292,840	290,591	2,249
Treasury forfeiture expenditures	-	95,290	92,591	2,699
State forfeiture expenditures	158,180	301,760	229,514	72,246
Gambling forfeiture expenditures	-	26,000	26,000	-
Other forfeiture expenditures	-	28,710	29,118	(408)
Total charges to appropriations (outflows)	289,980	744,600	667,814	76,786
Fund Balance - End of year	\$ 519,445	\$ 365,385	\$ 474,803	\$ 109,418

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2008

Special Revenue Fund - Community Development Block Grant Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources	699,480	691,540	669,547	(21,993)
Charges to Appropriations (Outflows)				
Administrative expenses	15,480	15,480	9,291	6,189
Books	9,950	9,950	9,954	(4)
Senior Citizens Home Chore	24,890	24,890	22,725	2,165
Minor Home Repair	30,000	30,000	22,341	7,659
Single Parent Education Program	25,090	25,090	25,088	2
Housing Rehabilitation Program	134,200	134,200	129,262	4,938
Contributions to nonprofit organizations	22,960	22,960	22,956	4
Transfers to other funds	436,910	428,970	427,930	1,040
Total charges to appropriations (outflows)	699,480	691,540	669,547	21,993
Fund Balance - End of year	\$ -	\$ -	\$ -	\$ -

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2008

Debt Service Fund - General Drain

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 24,528	\$ 24,528	\$ 24,528	\$ -
Resources (Inflows)				
Property taxes	1,084,430	1,084,430	1,082,147	(2,283)
Other revenue	30,000	24,000	24,510	510
Delinquents and penalties	5,000	3,900	7,114	3,214
Transfer from other funds	-	15,000	15,000	-
Total resources (inflows)	1,119,430	1,127,330	1,128,771	1,441
Charges to Appropriations (Outflows)				
Other charges	4,680	8,130	7,056	1,074
Principal	830,000	830,000	830,000	-
Interest	309,750	309,750	309,750	-
Total charges to appropriations (outflows)	1,144,430	1,147,880	1,146,806	1,074
Fund Balance - End of year	<u><u>\$ (472)</u></u>	<u><u>\$ 3,978</u></u>	<u><u>\$ 6,493</u></u>	<u><u>\$ 2,515</u></u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2008

Debt Service Fund - Voted Tax General Obligation

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 10,380	\$ 10,380	\$ 10,380	\$ -
Resources (Inflows)				
Property taxes	972,340	972,340	970,663	(1,677)
Delinquents and penalties	3,200	3,200	5,692	2,492
Other revenue	4,800	4,100	4,149	49
Bond premiums	-	50,140	50,143	3
Transfers from other funds	-	2,500	2,500	-
Total resources (inflows)	980,340	1,032,280	1,033,147	867
Charges to Appropriations (Outflows) -				
Proposal R	986,340	989,840	989,282	558
Fund Balance - End of year	<u>\$ 4,380</u>	<u>\$ 52,820</u>	<u>\$ 54,245</u>	<u>\$ 1,425</u>

Debt Service Fund - Settlement Bond

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 1,188	\$ 1,188	\$ 1,188	\$ -
Resources (Inflows)				
Other revenue	19,000	10,000	9,961	(39)
Transfer from other funds	1,501,340	1,518,340	1,518,340	-
Total resources (inflows)	1,520,340	1,528,340	1,528,301	(39)
Charges to Appropriations (Outflows)				
Principal	930,000	930,000	930,000	-
Interest	596,090	596,090	596,087	3
Other	250	250	250	-
Total charges to appropriations (outflows)	1,526,340	1,526,340	1,526,337	3
Fund Balance - End of year	<u>\$ (4,812)</u>	<u>\$ 3,188</u>	<u>\$ 3,152</u>	<u>\$ (36)</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2008

Debt Service Fund - Limited Tax General Obligation

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 30,020	\$ 30,020	\$ 30,020	\$ -
Resources (Inflows)				
Other revenue	2,200	6,100	5,898	(202)
Transfer from other funds	1,355,560	1,307,960	1,307,959	(1)
Total resources (inflows)	1,357,760	1,314,060	1,313,857	(203)
Charges to Appropriations (Outflows)				
Other charges	1,030	1,050	725	325
Principal	1,075,000	1,075,000	1,075,000	-
Interest	284,130	263,350	263,348	2
Total charges to appropriations (outflows)	1,360,160	1,339,400	1,339,073	327
Fund Balance - End of year	\$ 27,620	\$ 4,680	\$ 4,804	\$ 124

Major Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds Year Ended June 30, 2008

Debt Service Fund - Road Bond Debt Retirement

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 52,589	\$ 52,589	\$ 52,589	\$ -
Resources (Inflows)				
Other revenue	20,000	20,000	7,332	(12,668)
Transfer from other funds	<u>2,600,200</u>	<u>2,600,200</u>	<u>2,600,200</u>	<u>-</u>
Total resources (inflows)	2,620,200	2,620,200	2,607,532	(12,668)
Charges to Appropriations (Outflows)				
Other	1,660	1,660	1,362	298
Principal	1,900,000	1,900,000	1,900,000	-
Interest	<u>749,690</u>	<u>735,010</u>	<u>735,012</u>	<u>(2)</u>
Total charges to appropriations (outflows)	<u>2,651,350</u>	<u>2,636,670</u>	<u>2,636,374</u>	<u>296</u>
Fund Balance - End of year	<u><u>\$ 21,439</u></u>	<u><u>\$ 36,119</u></u>	<u><u>\$ 23,747</u></u>	<u><u>\$ (12,372)</u></u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds (Continued) Year Ended June 30, 2008

Capital Projects Fund - General Improvements

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 2,442,918	\$ 2,442,918	\$ 2,442,918	\$ -
Resources (Inflows)				
Federal, state, and local sources	117,000	172,670	173,471	801
Penalties and interest	3,000	3,000	1,705	(1,295)
Other revenue	857,320	847,880	779,168	(68,712)
Issuance of long-term debt	5,000,000	5,000,000	5,000,000	-
Transfer from other funds	1,534,500	1,534,500	1,534,500	-
Total resources (inflows)	7,511,820	7,558,050	7,488,844	(69,206)
Charges to Appropriations (Outflows)				
Capital equipment	670,000	479,790	499,994	(20,204)
Capital vehicles	850,500	1,117,550	962,085	155,465
Capital projects	6,694,000	2,241,630	2,065,894	175,736
Total charges to appropriations (outflows)	8,214,500	3,838,970	3,527,973	310,997
Fund Balance - End of year	\$ 1,740,238	\$ 6,161,998	\$ 6,403,789	\$ 241,791

Capital Projects Fund - Road Bond Construction

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 703,666	\$ 703,666	\$ 703,666	\$ -
Resources (Inflows)				
Other revenues	-	11,000	112,088	101,088
Transfer from other funds	-	200,000	200,000	-
Issuance of long-term debt	2,700,000	-	-	-
Total resources (inflows)	2,700,000	211,000	312,088	101,088
Charges to Appropriations (Outflows) -				
Capital outlay	2,700,000	910,830	862,304	48,526
Fund Balance - End of year	\$ 703,666	\$ 3,836	\$ 153,450	\$ 149,614

Fiduciary and Agency Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Net Assets Trust Funds June 30, 2008

	Trust Funds			
	Pension and Other Retirement Benefits Funds			
	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total
Assets				
Cash and cash equivalents	\$ 3,937,099	\$ 4,484,912	\$ 580,223	\$ 9,002,234
Investments - At fair value:				
Government securities	10,780,720	11,298,535	4,029,331	26,108,586
Corporate bonds	29,221,106	61,815,629	808,942	91,845,677
Common and preferred stocks	81,432,230	108,339,986	13,664,297	203,436,513
Pooled investments	-	10,667,685	-	10,667,685
Receivables - Accrued interest	315,974	600,351	-	916,325
Total assets	125,687,129	197,207,098	19,082,793	341,977,020
Liabilities				
Accounts payable	411,374	1,268,335	541	1,680,250
Accrued and other liabilities	1,323,462	3,024,022	8,475	4,355,959
Due to other governmental units	-	-	478,946	478,946
Provision for uninsured losses and liabilities	-	-	627,461	627,461
Deferred revenue	3,238	-	-	3,238
Total liabilities	1,738,074	4,292,357	1,115,423	7,145,854
Net Assets - Held in trust for pension and other retirement benefits	\$ 123,949,055	\$ 192,914,741	\$ 17,967,370	\$ 334,831,166

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Trust Funds Year Ended June 30, 2008

	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total
Additions				
Investment income (loss):				
Interest and dividends	\$ 3,683,481	\$ 6,738,177	\$ 424,553	\$ 10,846,211
Net adjustment to fair value of investments	(4,682,633)	(11,762,802)	(605,170)	(17,050,605)
Less investment expenses	-	(1,098,537)	(119,835)	(1,218,372)
Net investment income	(999,152)	(6,123,162)	(300,452)	(7,422,766)
Securities lending income:				
Interest and fees	506,353	846,518	-	1,352,871
Less borrower rebates and bank fees	(449,298)	(750,590)	-	(1,199,888)
Net securities lending income	57,055	95,928	-	152,983
Contributions:				
Employer	-	1,707,910	10,061,380	11,769,290
Employee	814,900	1,136,194	-	1,951,094
Purchase of prior year's service credits	21,302	1,610,619	-	1,631,921
Insurance recovery	-	-	116,401	116,401
Total additions	(105,895)	(1,572,511)	9,877,329	8,198,923
Deductions				
Benefit payments	4,852,259	13,434,359	5,597,039	23,883,657
Refunds of contributions	535,731	678,660	-	1,214,391
Total deductions	5,387,990	14,113,019	5,597,039	25,098,048
Net Change in Net Assets	(5,493,885)	(15,685,530)	4,280,290	(16,899,125)
Net Assets - Beginning of year	129,442,940	208,600,271	13,687,080	351,730,291
Net Assets - End of year	<u>\$ 123,949,055</u>	<u>\$ 192,914,741</u>	<u>\$ 17,967,370</u>	<u>\$ 334,831,166</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Net Assets Agency Funds June 30, 2008

	Agency Funds		
	Tax Collections	General Agency	Total
Assets			
Cash and cash equivalents	\$ 91,616	\$ 2,409,224	\$ 2,500,840
Investments - At fair value -			
Short-term investment funds	-	849,275	849,275
Due from other governmental units	-	3,213	3,213
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 91,616</u>	<u>\$ 3,261,712</u>	<u>\$ 3,353,328</u>
Liabilities			
Accrued and other liabilities	\$ 688	\$ 1,188,067	\$ 1,188,755
Due to other governmental units	90,928	13,576	104,504
Cash bonds and deposits	-	2,060,069	2,060,069
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$ 91,616</u>	<u>\$ 3,261,712</u>	<u>\$ 3,353,328</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2008

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
<u>Tax Collection</u>				
Assets - Cash and cash equivalents	\$ 59,540	\$ 177,425,173	\$ 177,393,097	\$ 91,616
Liabilities				
Accrued and other liabilities	\$ 5,215	\$ 226,408	\$ 230,935	\$ 688
Due to other governmental units	54,325	207,133,881	207,097,278	90,928
Total liabilities	\$ 59,540	\$ 207,360,289	\$ 207,328,213	\$ 91,616
<u>General Agency</u>				
Assets				
Cash and cash equivalents	\$ 506,492	\$ 13,356,454	\$ 11,453,722	\$ 2,409,224
Investments - At fair value	4,064,175	11,223,197	14,438,097	849,275
Receivables - Accrued interest	47,495	88,002	135,497	-
Due from other governmental units	-	3,213	-	3,213
Total assets	\$ 4,618,162	\$ 24,670,866	\$ 26,027,316	\$ 3,261,712
Liabilities				
Accounts payable	\$ -	\$ 1,333,718	\$ 1,333,718	\$ -
Accrued and other liabilities	1,490,636	161,791	464,360	1,188,067
Due to other governmental units	93,581	4,439,351	4,519,356	13,576
Cash and bond deposits	3,033,945	1,929,091	2,902,967	2,060,069
Total liabilities	\$ 4,618,162	\$ 7,863,951	\$ 9,220,401	\$ 3,261,712
<u>Totals - All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 566,032	\$ 190,781,627	\$ 188,846,819	\$ 2,500,840
Investments - At fair value	4,064,175	11,223,197	14,438,097	849,275
Receivables - Accrued interest	47,495	88,002	135,497	-
Due from other governmental units	-	3,213	-	3,213
Total assets	\$ 4,677,702	\$ 202,096,039	\$ 203,420,413	\$ 3,353,328
Liabilities				
Accounts payable	\$ -	\$ 1,333,718	\$ 1,333,718	\$ -
Accrued and other liabilities	1,495,851	388,199	695,295	1,188,755
Due to other governmental units	147,906	211,573,232	211,616,634	104,504
Cash and bond deposits	3,033,945	1,929,091	2,902,967	2,060,069
Total liabilities	\$ 4,677,702	\$ 215,224,240	\$ 216,548,614	\$ 3,353,328

City Of Sterling Heights, Michigan

Statistical Information and Continuing Disclosure Contents

STATISTICAL INFORMATION

Statistical information contained herein relates to the physical, economic, social, and political characteristics of the City. It is designed to provide a broader and more complete understanding of the City and its financial affairs than is possible from the financial statements, notes, and supporting schedules presented in the financial section.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Net Assets by Component	96
Changes in Net Assets	97
Fund Balances of Governmental Funds	98
Changes in Fund Balances of Governmental Funds	98-100*
General Governmental Tax Revenues by Source	101

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Property Tax Levies and Collections	102*
Property Tax Rates - Direct and Overlapping Governments	103-104*
Assessed Taxable Values (History of Property Values)	105-106*
Principal Property Taxpayers (Major Taxpayers)	107*

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

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Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Demographic and Economic Statistics	114
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Principal Employers (Major Employers)	116*

* Indicates schedules included in statistical information that fulfill continuing disclosure requirements.

City Of Sterling Heights, Michigan

Statistical Information and Continuing Disclosure Contents (Continued)

STATISTICAL INFORMATION (CONTINUED)

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Operating Indicators by Function	117-118
Capital Asset Statistics by Function	119
Building Permits at Market Value	120
Full-time Equivalent City Government Employees by Function	121

CONTINUING DISCLOSURE

Continuing disclosure information contained herein complies with Rule 15c2-12, a federal regulation promulgated by the Securities and Exchange Commission, designed to improve disclosure practices in the municipal bond market. Municipal bonds issued after July 3, 1995 are subject to this mandatory requirement.

Continuing disclosure requires certain annual financial information and operating data, including audited financial statements for the preceding fiscal year. This information is generally consistent with the information contained or cross-referenced in the official statement relating to the bonds.

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Statistical Information

City of Sterling Heights, Michigan

Net Assets by Component Last Seven Fiscal Years (Accrual Basis of Accounting)

	2002*	2003	2004	2005	2006	2007	2008
Governmental activities:							
Invested in capital assets - Net of related debt	\$ 149,115,930	\$ 157,319,066	\$ 164,071,091	\$ 165,784,014	\$ 171,697,125	\$ 175,544,446	\$ 175,084,518
Restricted	18,041,590	13,918,356	8,845,442	5,537,300	13,956,025	6,601,883	12,015,678
Unrestricted	<u>27,748,112</u>	<u>29,284,871</u>	<u>(2,714,472)</u>	<u>(3,747,590)</u>	<u>7,320,525</u>	<u>20,524,819</u>	<u>19,437,952</u>
Total governmental activities - Net assets	<u>\$ 194,905,632</u>	<u>\$ 200,522,293</u>	<u>\$ 170,202,061</u>	<u>\$ 167,573,724</u>	<u>\$ 192,973,675</u>	<u>\$ 202,671,148</u>	<u>\$ 206,538,148</u>
Business-type activities:							
Invested in capital assets - Net of related debt	\$ 127,892,311	\$ 131,088,312	\$ 135,546,803	\$ 135,416,064	\$ 139,088,895	\$ 137,413,059	\$ 135,723,619
Restricted	9,064,472	9,286,673	8,525,469	9,029,341	7,050,855	7,418,300	7,522,330
Unrestricted	<u>22,169,256</u>	<u>24,155,268</u>	<u>23,976,948</u>	<u>23,607,368</u>	<u>28,265,921</u>	<u>29,163,010</u>	<u>29,337,877</u>
Total business-type activities - Net assets	<u>\$ 159,126,039</u>	<u>\$ 164,530,253</u>	<u>\$ 168,049,220</u>	<u>\$ 168,052,773</u>	<u>\$ 174,405,671</u>	<u>\$ 173,994,369</u>	<u>\$ 172,583,826</u>
Primary government:							
Invested in capital assets - Net of related debt	\$ 277,008,241	\$ 288,407,378	\$ 299,617,894	\$ 301,200,078	\$ 310,786,020	\$ 312,957,505	\$ 310,808,137
Restricted	27,106,062	23,205,029	17,370,911	14,566,641	21,006,880	14,020,183	19,538,008
Unrestricted	<u>49,917,368</u>	<u>53,440,139</u>	<u>21,262,476</u>	<u>19,859,778</u>	<u>35,586,446</u>	<u>49,687,829</u>	<u>48,775,829</u>
Total primary government - Net assets	<u>\$ 354,031,671</u>	<u>\$ 365,052,546</u>	<u>\$ 338,251,281</u>	<u>\$ 335,626,497</u>	<u>\$ 367,379,346</u>	<u>\$ 376,665,517</u>	<u>\$ 379,121,974</u>

* Prior to the issuance of the financial report for fiscal year ended June 30, 2002, information relative to GASB No. 34 is not available.

City of Sterling Heights, Michigan

Changes in Net Assets Last Seven Fiscal Years (Accrual Basis of Accounting)

	2002*	2003	2004	2005	2006	2007	2008
Expenses							
Governmental activities:							
General government	\$ 7,958,782	\$ 8,710,448	\$ 9,499,251	\$ 9,873,718	\$ 8,760,970	\$ 10,348,927	\$ 11,017,399
41A District Court	2,354,295	2,480,824	2,690,360	2,852,812	2,864,422	2,992,184	3,164,448
Public safety	33,975,838	37,066,435	39,815,539	42,253,545	41,327,439	43,995,464	48,044,223
Public works	22,945,588	22,555,042	22,838,480	25,464,111	24,181,418	22,603,155	24,083,515
Recreation and culture	5,184,217	5,476,196	6,047,819	5,716,243	5,989,344	5,890,651	6,322,163
Interest on long-term debt	2,243,791	2,266,350	2,022,258	2,585,777	2,463,042	1,922,125	1,921,428
Total governmental activities expenses	74,662,511	78,555,295	82,913,707	88,746,206	85,586,635	87,752,506	94,553,176
Business-type activities - Water and sewer	23,004,156	23,267,170	25,829,284	28,142,434	28,106,435	30,290,386	32,784,120
Total primary government expenses	<u>\$ 97,666,667</u>	<u>\$ 101,822,465</u>	<u>\$ 108,742,991</u>	<u>\$ 116,888,640</u>	<u>\$ 113,693,070</u>	<u>\$ 118,042,892</u>	<u>\$ 127,337,296</u>
Program Revenues							
Governmental activities:							
Charges for services:							
General government	\$ 830,931	\$ 709,161	\$ 714,601	\$ 844,263	\$ 1,829,127	\$ 2,022,680	\$ 2,216,008
41A District Court	1,779,233	1,831,676	2,136,354	2,320,411	2,424,477	2,185,724	2,351,225
Public safety	1,394,218	728,790	1,114,300	1,249,154	1,394,981	1,326,061	1,984,318
Public works	4,922,913	3,566,606	3,855,774	6,241,366	6,813,150	8,125,228	6,363,346
Recreation and culture	411,642	425,400	465,391	513,241	583,627	563,152	629,818
Operating grants and contributions	8,803,688	8,811,085	10,284,432	9,547,201	9,184,599	9,148,913	8,525,230
Capital grants and contributions	231,693	1,777,966	3,142,226	1,336,930	2,751,871	2,638,714	3,173,757
Total governmental activities program revenues	18,374,318	17,850,684	21,713,078	22,052,566	24,981,832	26,010,472	25,243,702
Business-type activities - Water and sewer:							
Charges for services	17,625,565	20,563,318	20,385,299	22,619,205	24,944,170	25,404,755	27,456,965
Operating grants and contributions	-	30,806	-	-	-	-	-
Capital grants and contributions	4,385,957	6,847,385	8,430,400	4,911,208	8,364,981	2,662,317	2,461,289
Total business-type activities program revenues	22,011,522	27,441,509	28,815,699	27,530,413	33,309,151	28,067,072	29,918,254
Total primary government program revenues	<u>\$ 40,385,840</u>	<u>\$ 45,292,193</u>	<u>\$ 50,528,777</u>	<u>\$ 49,582,979</u>	<u>\$ 58,290,983</u>	<u>\$ 54,077,544</u>	<u>\$ 55,161,956</u>
Net (Expense) Revenue							
Governmental activities	\$ (56,288,193)	\$ (60,704,611)	\$ (61,200,629)	\$ (66,693,640)	\$ (60,604,803)	\$ (61,742,034)	\$ (69,309,474)
Business-type activities	(992,634)	4,174,339	2,986,415	(612,021)	5,202,716	(2,223,314)	(2,865,866)
Total primary government net expense	<u>\$ (57,280,827)</u>	<u>\$ (56,530,272)</u>	<u>\$ (58,214,214)</u>	<u>\$ (67,305,661)</u>	<u>\$ (55,402,087)</u>	<u>\$ (63,965,348)</u>	<u>\$ (72,175,340)</u>
General Revenues and Other Changes in Net Assets							
Governmental activities:							
Property taxes	\$ 44,784,294	\$ 46,791,310	\$ 48,495,510	\$ 50,357,630	\$ 52,574,000	\$ 55,624,617	\$ 58,331,682
State-shared revenues	13,315,069	14,431,298	11,249,778	11,127,156	11,003,347	10,675,667	10,675,667
Interest	1,913,772	2,058,855	709,149	1,155,124	2,034,936	3,383,824	3,075,919
Loss on disposal of capital assets	975,870	-	-	105,454	256,994	227,321	(577,891)
Insurance proceeds	-	-	-	-	18,763,736	-	-
Franchise fees and other	1,769,580	3,039,809	1,425,963	1,319,937	1,371,831	1,527,988	1,671,094
Extraordinary item	-	-	(31,000,000)	-	-	-	-
Total governmental activities expenses	62,758,585	66,321,272	30,880,400	64,065,301	86,004,844	71,439,417	73,176,471
Business-type activities - Interest	1,036,590	1,229,875	532,552	615,574	1,150,182	1,812,012	1,455,323
Total primary government	<u>\$ 63,795,175</u>	<u>\$ 67,551,147</u>	<u>\$ 31,412,952</u>	<u>\$ 64,680,875</u>	<u>\$ 87,155,026</u>	<u>\$ 73,251,429</u>	<u>\$ 74,631,794</u>
Change in Net Assets							
Governmental activities	\$ 6,470,392	\$ 5,616,661	\$ (30,320,229)	\$ (2,628,339)	\$ 25,400,041	\$ 9,697,383	\$ 3,866,997
Business-type activities	43,956	5,404,214	3,518,967	3,553	6,352,898	(411,302)	(1,410,543)
Total primary government	<u>\$ 6,514,348</u>	<u>\$ 11,020,875</u>	<u>\$ (26,801,262)</u>	<u>\$ (2,624,786)</u>	<u>\$ 31,752,939</u>	<u>\$ 9,286,081</u>	<u>\$ 2,456,454</u>

*Prior to the issuance of the financial report for fiscal year ended June 30, 2002, information relative to GASB No. 34 is not available.

City of Sterling Heights, Michigan

Fund Balances of Governmental Funds Last Ten Fiscal Years (Modified Accrual Basis of Accounting)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund:										
Reserved	\$ 581,251	\$ 617,242	\$ 528,424	\$ 489,404	\$ 580,930	\$ 593,593	\$ 655,400	\$ 662,581	\$ 679,962	\$ 643,564
Unreserved	<u>16,687,536</u>	<u>14,915,455</u>	<u>15,923,759</u>	<u>17,346,558</u>	<u>17,641,156</u>	<u>19,057,927</u>	<u>13,345,638</u>	<u>14,387,663</u>	<u>15,037,933</u>	<u>14,649,346</u>
Total General Fund	<u>\$ 17,268,787</u>	<u>\$ 15,532,697</u>	<u>\$ 16,452,183</u>	<u>\$ 17,835,962</u>	<u>\$ 18,222,086</u>	<u>\$ 19,651,520</u>	<u>\$ 14,001,038</u>	<u>\$ 15,050,244</u>	<u>\$ 15,717,895</u>	<u>\$ 15,292,910</u>
All other governmental funds:										
Reserved	\$ 1,159,916	\$ 1,690,683	\$ 1,982,635	\$ 679,942	\$ 1,060,623	\$ 1,027,906	\$ 735,565	\$ 1,536,063	\$ 534,266	\$ 5,321,181
Unreserved, reported in:										
Special Revenue Funds	15,110,643	17,671,853	17,255,612	20,268,530	15,588,126	10,981,941	5,168,955	2,547,940	5,810,853	6,950,614
Debt Service Funds	949,523	791,593	599,914	545,540	277,483	248,467	236,999	284,417	118,705	92,441
Capital Projects Funds	<u>7,982,621</u>	<u>6,006,021</u>	<u>4,685,906</u>	<u>5,136,412</u>	<u>3,866,901</u>	<u>2,861,154</u>	<u>3,446,888</u>	<u>3,756,197</u>	<u>2,662,224</u>	<u>2,011,345</u>
Total all other governmental funds	<u>\$ 25,202,703</u>	<u>\$ 26,160,150</u>	<u>\$ 24,524,067</u>	<u>\$ 26,630,424</u>	<u>\$ 20,793,133</u>	<u>\$ 15,119,468</u>	<u>\$ 9,588,407</u>	<u>\$ 8,124,617</u>	<u>\$ 9,126,048</u>	<u>\$ 14,375,581</u>

City of Sterling Heights, Michigan

	1999	2000	2001	2002 (1)	2003
Revenues					
Property taxes	\$ 39,847,195	\$ 41,266,995	\$ 42,155,402	\$ 44,773,685	\$ 46,791,310
Fees and permits	1,950,414	1,855,159	2,253,273	1,916,542	2,036,864
Federal sources	1,016,601	1,178,322	1,657,762	1,280,774	752,977
State and local sources	18,653,817	19,281,979	20,293,929	20,676,922	20,161,887
Fines and forfeitures	2,776,653	2,798,853	2,781,114	2,299,389	2,587,756
Charges for services	5,371,619	5,451,881	5,791,473	5,514,851	5,875,269
Interest income	2,692,819	3,424,163	3,509,122	1,921,851	1,760,354
Special assessments	443,641	319,727	164,086	179,973	68,497
Rental income	1,075,936	1,035,063	1,240,272	1,047,761	1,253,148
Cable revenue	868,817	972,802	1,264,214	1,302,183	1,120,768
Reimbursement of advance road construction	-	-	-	-	-
Other	1,231,428	1,388,993	1,110,088	2,074,758	1,927,055
Total revenues	75,928,940	78,973,937	82,220,735	82,988,689	84,335,885
Expenditures					
Current:					
General government	7,030,523	7,663,131	8,368,507	8,550,972	8,733,703
41A District Court	2,044,259	1,999,838	2,131,093	2,178,525	2,173,817
Public safety	26,932,023	28,089,598	30,386,650	30,913,608	33,857,315
Public works	14,885,110	15,456,764	16,492,407	16,910,029	18,334,751
Recreation and culture	3,619,970	3,795,871	4,035,209	4,323,476	4,447,809
General expenditures	2,438,087	2,505,031	2,454,301	2,539,196	2,771,249
Capital outlay	12,500,787	18,815,645	14,107,920	13,053,333	11,763,846
Debt service:					
Principal	4,857,770	5,299,440	5,667,440	5,051,381	4,466,382
Interest	1,975,190	1,994,942	2,380,172	2,243,791	1,968,669
Total expenditures	76,283,719	85,620,260	86,023,699	85,764,311	88,517,541
Excess of Expenditures Over Revenues	(354,779)	(6,646,323)	(3,802,964)	(2,775,622)	(4,181,656)
Other Financing Sources (Uses)					
Long-term financing	9,120,500	7,859,080	4,421,872	1,725,000	4,916,772
Proceeds from sale of fixed assets	-	-	-	1,338,442	-
Bond premium	-	-	-	-	-
Net payments to refunded bond escrow agent and bond issuance costs	-	-	-	-	(4,916,772)
Transfers in	10,546,430	10,050,315	10,389,950	12,319,565	8,807,280
Transfers out	(10,546,430)	(10,050,315)	(10,389,950)	(12,319,565)	(8,807,280)
Total other financing sources	9,120,500	7,859,080	4,421,872	3,063,442	-
Net Change in Fund Balances - Before extraordinary items	8,765,721	1,212,757	618,908	287,820	(4,181,656)
Extraordinary Items - Lawsuit settlement payments	-	-	-	-	-
Net Change in Fund Balances	\$ 8,765,721	\$ 1,212,757	\$ 618,908	\$ 287,820	\$ (4,181,656)
Debt Service as a Percentage of Noncapital Expenditures	10.71%	10.92%	11.19%	10.03%	8.38%

(1) Information presented prior to the implementation of GASB No. 34 has been combined to reflect such activity.

City of Sterling Heights, Michigan

Changes in Fund Balances of Governmental Funds Last Ten Fiscal Years (Modified Accrual Basis of Accounting)

2004	2005	2006	2007	2008
\$ 48,495,510	\$ 50,357,630	\$ 52,574,000	\$ 55,624,617	\$ 58,331,682
2,318,120	2,012,360	1,986,333	1,784,156	1,352,594
1,629,936	2,069,321	3,198,148	2,755,145	1,001,641
20,176,008	19,607,043	19,721,028	19,894,287	18,939,977
3,069,824	2,995,613	2,890,745	2,563,520	2,755,701
6,334,722	6,695,039	7,795,120	8,038,601	7,988,183
567,049	977,664	1,788,092	2,511,234	2,316,653
372,917	73,776	28,017	130,082	92,745
1,298,796	1,566,845	1,357,037	1,443,651	1,727,929
1,224,778	1,319,937	1,371,831	1,527,988	1,671,094
-	-	-	-	2,440,414
2,758,591	1,980,022	1,731,700	1,511,396	1,755,645
88,246,251	89,655,250	94,442,051	97,784,677	100,374,258
9,091,026	10,042,438	10,109,764	10,562,158	11,244,018
2,342,220	2,472,160	2,660,587	2,847,111	2,974,001
35,779,556	38,346,169	39,440,275	41,610,977	44,435,670
18,280,775	21,418,948	18,545,503	18,734,562	20,134,496
4,553,035	4,669,116	4,868,429	5,180,497	5,358,825
3,388,336	2,651,054	3,555,955	3,791,084	2,945,761
13,041,634	12,476,405	10,576,821	14,756,585	7,402,019
4,436,681	5,056,539	5,030,000	14,000,000	5,685,000
1,827,203	2,334,584	2,479,375	2,336,756	1,938,403
92,740,466	99,467,413	97,266,709	113,819,730	102,118,193
(4,494,215)	(9,812,163)	(2,824,658)	(16,035,053)	(1,743,935)
30,355,000	13,720,000	-	7,900,000	5,000,000
-	476,081	550,074	-	-
975,374	91,759	-	26,815	50,143
(5,075,000)	(8,511,067)	-	-	-
6,462,170	8,354,684	9,931,683	18,458,535	9,716,170
(6,462,170)	(6,639,684)	(8,071,683)	(8,681,215)	(8,197,830)
26,255,374	7,491,773	2,410,074	17,704,135	6,568,483
21,761,159	(2,320,390)	(414,584)	1,669,082	4,824,548
(25,000,000)	(6,000,000)	-	-	-
\$ (3,238,841)	\$ (8,320,390)	\$ (414,584)	\$ 1,669,082	\$ 4,824,548
7.86%	8.50%	8.66%	16.49%	8.05%

City of Sterling Heights, Michigan

General Government Tax Revenues by Source Last Ten Fiscal Years

Fiscal Year Ended June 30	General Fund Property Taxes				Debt Service Funds Property Taxes			Total All Property Taxes
	Operating	Refuse	Police and Fire Retirement System	Total	General Drain	Voted Tax General Obligation	Total	
1999	\$ 30,117,888	\$ 3,575,404	\$ 2,514,557	\$ 36,207,849	\$ 1,036,993	\$ 2,602,354	\$ 3,639,347	\$ 39,847,196
2000	31,106,672	3,937,131	2,120,379	37,164,182	1,096,095	3,006,718	4,102,813	41,266,995
2001	31,836,229	4,231,574	2,207,727	38,275,530	818,785	3,061,087	3,879,872	42,155,402
2002	35,424,907	4,396,245	1,579,658	41,400,810	1,295,294	2,077,581	3,372,875	44,773,685
2003	36,500,172	4,660,074	2,746,657	43,906,903	1,435,644	1,448,763	2,884,407	46,791,310
2004	37,409,166	4,881,818	3,564,147	45,855,131	1,536,014	1,104,365	2,640,379	48,495,510
2005	38,420,002	5,203,504	4,204,831	47,828,337	1,429,947	1,099,346	2,529,293	50,357,630
2006	43,370,304	4,070,410	2,993,592	50,434,306	1,202,642	937,052	2,139,694	52,574,000
2007	46,585,168	4,205,469	2,646,459	53,437,096	1,214,130	973,391	2,187,521	55,624,617
2008	50,198,476	4,359,680	1,707,910	56,266,066	1,089,261	976,355	2,065,616	58,331,682

City of Sterling Heights, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Total Tax Levy (1)	Collected Within the Fiscal Year of the Levy		Subsequent Collection of Delinquent Taxes	Total Collections to Date Amount	Percentage of Levy
			Amount	Percentage of Levy			
1999	2000	\$ 41,262,657	\$ 40,512,689	98.18	\$ 594,083	\$ 41,106,772	99.62
2000	2001	42,334,773	41,427,546	97.86	581,589	42,009,135	99.23
2001	2002	44,791,080	43,840,834	97.88	602,398	44,443,232	99.22
2002	2003	46,900,401	45,827,067	97.71	710,729	46,537,796	99.23
2003	2004	48,561,542	47,590,646	98.00	680,399	48,271,045	99.40
2004	2005	50,166,920	49,462,142	98.60	679,140	50,141,282	99.95
2005	2006	52,325,289	51,316,165	98.07	962,656	52,278,821	99.91
2006	2007	55,485,078	54,001,323	97.33	1,329,962	55,331,285	99.72
2007	2008	58,015,198	56,193,561	96.86	1,735,471	57,929,032	99.85
2008	2009	57,729,407 (2)	-	-	-	-	-

(1) Includes operational, refuse, public improvement, and general drain taxes, but does not include penalty and interest on late payment of taxes.

(2) The estimated tax levy is based on the summer tax receivable schedule. This levy will only change due to STC, MTT, and/or Board of Review adjustments and is included to facilitate continuing disclosure requirements.

Source: City Treasurer's Office

City of Sterling Heights, Michigan

	City Direct Rates											
											Macomb County	
	Operating (I)	Refuse	Police and Fire Retirement System	Drain Debt Service	Public Improvement Debt Service	Total	Macomb Intermediate School District	Macomb Community College	Huron/ Clinton Metro Authority	S.M.A.R.T.	Operating	Drain Debt Service
1999 (1998)												
Homestead	8.47965	1.00665	0.70797	0.29230	0.73343	11.22000	2.03630	1.61340	0.22350	0.32990	4.20000	0.00800
Non-homestead	8.47965	1.00665	0.70797	0.29230	0.73343	11.22000	2.03630	1.61340	0.22350	0.32990	4.20000	0.00800
2000 (1999)												
Homestead	8.26879	1.04657	0.56364	0.29142	0.79958	10.97000	2.02100	1.58400	0.22180	0.32730	4.20000	0.00800
Non-homestead	8.26879	1.04657	0.56364	0.29142	0.79958	10.97000	2.02100	1.58400	0.22180	0.32730	4.20000	0.00800
2001 (2000)												
Homestead	8.08550	1.07470	0.56070	0.21070	0.78840	10.72000	2.02100	1.51400	0.22020	0.32730	4.20000	0.00700
Non-homestead	8.08550	1.07470	0.56070	0.21070	0.78840	10.72000	2.02100	1.51400	0.22020	0.32730	4.20000	0.00700
2002 (2001)												
Homestead	8.43430	1.04670	0.37610	0.30700	0.48590	10.65000	2.00330	1.67070	0.22020	0.32730	4.20000	0.00600
Non-homestead	8.43430	1.04670	0.37610	0.30700	0.48590	10.65000	2.00330	1.67070	0.22020	0.32730	4.20000	0.00600
2003 (2002)												
Homestead	8.2923	1.0587	0.6240	0.3264	0.3286	10.6300	2.9863	1.6925	0.2170	0.6000	4.2000	0.0058
Non-homestead	8.2923	1.0587	0.6240	0.3264	0.3286	10.6300	2.9863	1.6925	0.2170	0.6000	4.2000	0.0058
2004 (2003)												
Homestead	8.1963	1.0696	0.7809	0.3366	0.2416	10.6250	2.9729	1.5859	0.2161	0.5973	4.2000	0.0058
Non-homestead	8.1963	1.0696	0.7809	0.3366	0.2416	10.6250	2.9729	1.5859	0.2161	0.5973	4.2000	0.0058
2005 (2004)												
Homestead	8.0957	1.1055	0.8905	0.3016	0.2317	10.6250	2.9615	1.5002	0.2154	0.5949	4.2000	0.0058
Non-homestead	8.0957	1.1055	0.8905	0.3016	0.2317	10.6250	2.9615	1.5002	0.2154	0.5949	4.2000	0.0058
2006 (2005)												
Homestead	8.7642	0.8266	0.6049	0.2413	0.1880	10.6250	2.9430	1.4212	0.2146	0.5912	4.2000	0.0058
Non-homestead	8.7642	0.8266	0.6049	0.2413	0.1880	10.6250	2.9430	1.4212	0.2146	0.5912	4.2000	0.0058
2007 (2006)												
Homestead	8.9776	0.8142	0.5118	0.2339	0.1875	10.7250	2.9430	1.4212	0.2146	0.5900	4.2000	0.0055
Non-homestead	8.9776	0.8142	0.5118	0.2339	0.1875	10.7250	2.9430	1.4212	0.2146	0.5900	4.2000	0.0055
2008 (2007)												
Homestead	9.2256	0.8057	0.3147	0.1998	0.1792	10.7250	2.9430	1.4212	0.2146	0.5900	4.2000	0.0055
Non-homestead	9.2256	0.8057	0.3147	0.1998	0.1792	10.7250	2.9430	1.4212	0.2146	0.5900	4.2000	0.0055

(1) City general operating tax rate charter limit equals 12.0 mills.

(2) Sterling Heights taxable valuation is based on 62 percent for Utica Schools and 38 percent for Warren Consolidated Schools for the year ended June 30, 2008.

Source: Municipal Advisory Council of Michigan

Property Tax Rates Direct and Overlapping Governments Last Ten Fiscal Years

Overlapping Rates										
Utica Community School District (2)				Warren Consolidated School District (2)					Total Direct and Overlapping Rates by Resident's School District	
State Education Tax	Operating/ Local	Supplemental	Debt	State Education Tax	Operating/ Local	Supplemental	Sinking	Debt	Utica Community	Warren Consolidated
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	8.77760	0.00000	1.00000	29.13110	35.40870
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	47.13110	44.63110
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	8.34560	0.00000	1.00000	28.83210	34.67770
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	46.83210	44.33210
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	7.81630	0.00000	1.00000	28.50950	33.82580
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	46.50950	44.00950
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	7.89710	0.00000	1.00000	28.57750	33.97460
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	46.57750	44.07750
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	7.4662	0.9964	2.5000	29.8316	37.2942
6.0000	18.0000	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.5000	47.8316	47.8280
5.0000	0.0000	0.0000	3.5000	5.0000	0.0000	7.3342	0.9964	2.3500	28.7030	35.8836
5.0000	18.0000	0.0000	3.5000	5.0000	18.0000	0.0000	0.9964	2.3500	46.7030	46.5494
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	6.7662	0.9964	2.2800	29.6028	36.1454
6.0000	18.0000	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.6028	47.3792
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	6.7166	0.9964	2.2800	29.5008	35.9938
6.0000	17.9316	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.4324	47.2772
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	6.5530	0.9964	2.2800	29.5993	35.9287
6.0000	17.9316	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.5309	47.3757
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	5.9594	0.9964	2.2800	29.5993	35.3351
6.0000	17.9316	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.5309	47.3757

City of Sterling Heights, Michigan

	1999	2000	2001	2002	2003
State Equalized Value					
SEV Equivalent	\$ 3,770,255,255	\$ 4,095,828,980	\$ 4,384,642,350	\$ 4,786,398,900	\$ 5,272,934,560
IFT Exemption	<u>163,817,900</u>	<u>184,401,100</u>	<u>205,204,050</u>	<u>261,109,300</u>	<u>259,867,600</u>
Total SEV	<u>\$ 3,934,073,155</u>	<u>\$ 4,280,230,080</u>	<u>\$ 4,589,846,400</u>	<u>\$ 5,047,508,200</u>	<u>\$ 5,532,802,160</u>
Taxable Value					
By Class:					
Real property	\$ 2,826,351,500	\$ 2,974,814,700	\$ 3,145,249,054	\$ 3,356,956,900	\$ 3,587,248,700
Personal property	<u>874,346,800</u>	<u>949,326,300</u>	<u>979,571,300</u>	<u>1,086,927,400</u>	<u>1,071,358,000</u>
Total value	<u>\$ 3,700,698,300</u>	<u>\$ 3,924,141,000</u>	<u>\$ 4,124,820,354</u>	<u>\$ 4,443,884,300</u>	<u>\$ 4,658,606,700</u>
By Type:					
Residential	\$ 2,068,663,200	\$ 2,192,313,900	\$ 2,329,156,554	\$ 2,502,544,100	\$ 2,685,708,600
Commercial	404,666,300	420,041,700	446,957,000	465,723,900	496,719,500
Industrial	312,148,800	335,000,300	343,988,000	359,713,900	373,247,900
Personal property	587,584,200	607,982,900	594,310,700	593,683,800	583,195,500
IFT real and personal property	<u>327,635,800</u>	<u>368,802,200</u>	<u>410,408,100</u>	<u>522,218,600</u>	<u>519,735,200</u>
Total	3,700,698,300	3,924,141,000	4,124,820,354	4,443,884,300	4,658,606,700
Less exempt property	<u>(163,817,900)</u>	<u>(184,401,100)</u>	<u>(205,204,050)</u>	<u>(261,109,300)</u>	<u>(259,867,600)</u>
Total taxable value	<u>\$ 3,536,880,400</u>	<u>\$ 3,739,739,900</u>	<u>\$ 3,919,616,304</u>	<u>\$ 4,182,775,000</u>	<u>\$ 4,398,739,100</u>
Total direct tax rate (1)	<u>\$ 11.22000</u>	<u>\$ 10.97000</u>	<u>\$ 10.72000</u>	<u>\$ 10.65000</u>	<u>\$ 10.63000</u>
Total taxable value as					
a % of SEV equivalent	93.81%	91.31%	89.39%	87.39%	83.42%
Total taxable value as					
a % of total value	95.57%	95.30%	95.03%	94.12%	94.42%

(1) This rate is applied 100% to the total taxable value.

Source: City of Sterling Heights, Assessor's Office

**Assessed Taxable Values
(History of Property Values)
Last Ten Fiscal Years**

2004	2005	2006	2007	2008
\$ 5,553,761,050	\$ 5,754,101,500	\$ 5,997,740,400	\$ 6,230,684,225	\$ 6,380,752,375
<u>226,175,750</u>	<u>221,346,700</u>	<u>225,091,700</u>	<u>223,376,725</u>	<u>290,426,725</u>
<u>\$ 5,779,936,800</u>	<u>\$ 5,975,448,200</u>	<u>\$ 6,222,832,100</u>	<u>\$ 6,454,060,950</u>	<u>\$ 6,671,179,100</u>
\$ 3,764,758,000	\$ 3,970,808,500	\$ 4,195,815,400	\$ 4,451,151,600	\$ 4,645,291,550
<u>1,025,224,600</u>	<u>968,119,700</u>	<u>949,766,100</u>	<u>944,127,850</u>	<u>1,053,774,300</u>
<u>\$ 4,789,982,600</u>	<u>\$ 4,938,928,200</u>	<u>\$ 5,145,581,500</u>	<u>\$ 5,395,279,450</u>	<u>\$ 5,699,065,850</u>
\$ 2,820,357,100	\$ 2,990,452,700	\$ 3,151,356,400	\$ 3,327,952,350	\$ 3,480,892,950
529,584,800	548,866,900	588,205,000	638,272,700	692,716,600
383,343,100	397,910,200	416,252,900	445,399,650	430,477,050
607,793,500	567,204,500	548,022,100	540,032,000	515,469,150
<u>448,904,100</u>	<u>434,493,900</u>	<u>441,745,100</u>	<u>443,622,750</u>	<u>579,510,100</u>
4,789,982,600	4,938,928,200	5,145,581,500	5,395,279,450	5,699,065,850
<u>(224,452,050)</u>	<u>(217,246,950)</u>	<u>(220,872,550)</u>	<u>(221,811,375)</u>	<u>(289,755,050)</u>
<u>\$ 4,565,530,550</u>	<u>\$ 4,721,681,250</u>	<u>\$ 4,924,708,950</u>	<u>\$ 5,173,468,075</u>	<u>\$ 5,409,310,800</u>
<u>\$ 10.62500</u>	<u>\$ 10.62500</u>	<u>\$ 10.62500</u>	<u>\$ 10.72500</u>	<u>\$ 10.72500</u>
82.21%	82.06%	82.11%	83.03%	84.78%
95.31%	95.60%	95.71%	95.89%	94.92%

City of Sterling Heights, Michigan

Principal Property Taxpayers (Major Taxpayers) Current Year and Nine Years Ago

Company Name	Product/Service	Year Ended June 30, 2008			Year Ended June 30, 1999		
		Taxable Value	Rank	Percent of Total City Taxable Value	Taxable Value	Rank	Percent of Total City Taxable Value
Chrysler LLC	Automotive assembly and stamping	\$ 269,479,425	1	4.98	\$ 220,579,300	2	5.96
Ford Motor Company	Automotive manufacturing and drive shafts	215,584,000	2	3.99	307,694,250	1	8.70
Detroit News Agency	Printing plant - Newspapers	37,493,125	3	0.69	20,155,300	7	0.57
DTE Energy	Public electric utility	34,699,800	4	0.64	41,898,100	3	1.18
Lakeside Associates	Retail shopping center	32,192,250	5	0.60	32,559,400	4	0.92
General Dynamics	Administrative engineering and design	31,576,175	6	0.58	25,200,700	5	0.71
Laurel/Shoal Creek	Office and apartment complex	17,751,500	7	0.33	14,030,200	9	0.40
Ledd's Development	Office and business complex	15,557,750	8	0.29	-		
Market Place Properties	Retail shopping center	13,753,300	9	0.25	-		
Comcast Cable	Cable communications	12,975,550	10	0.24	-		
Consumers Power	Public utility for gas	-		-	16,805,700	8	0.48
T.R.W.	Auto sub-component assembly	-		-	21,180,900	6	0.60
MNP Corporation	Nut, bolt, and wire manufacturer	-		-	11,883,900	10	0.34
	Ten largest taxpayers	681,062,875		12.59	711,987,750		19.86
	Other taxpayers	4,728,247,925			2,824,892,650		
	Total taxable value	\$ 5,409,310,800			\$ 3,536,880,400		

Source: City of Sterling Heights Assessor's Office

City of Sterling Heights, Michigan

Ratios of General Bonded Debt Outstanding Last Ten Fiscal Years

Fiscal Year Ended June 30	General Obligation Bonds	County Issued Bonds	Amounts Available in Debt Service Funds	Total	Percentage of Estimated Total Taxable Value of Property (1)	Population	Per Capita
1999	\$ 17,510,000	\$ 7,392,862	\$ (323,278)	\$ 24,579,584	0.6519	123,530	\$ 198.98
2000	18,090,000	6,528,423	(255,877)	24,362,546	0.5948	124,471	195.73
2001	14,680,000	10,485,984	(112,528)	25,053,456	0.5714	125,140	200.20
2002	12,180,000	11,319,602	(62,846)	23,436,756	0.4897	125,800	186.30
2003	9,125,000	10,403,220	(15,300)	19,512,920	0.3701	126,470	154.29
2004	33,745,000	9,936,539	(8,007)	43,673,532	0.7864	127,270	343.16
2005	31,735,000	9,060,000	(61,570)	40,733,430	0.7079	128,026	318.17
2006	29,705,000	8,230,000	(88,166)	37,846,834	0.6310	128,692	294.09
2007	21,590,000	7,325,000	(66,116)	28,848,884	0.4630	128,914	223.78
2008	23,635,000	6,495,000	(68,694)	30,061,306	0.4711	129,200	232.67

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See the schedule of assessed taxable value for property value data

City of Sterling Heights, Michigan

Ratios of Outstanding Debt by Type Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities				Total Primary Government	Percentage of Personal Income (1)	Population	Per Capita
	General Obligation Bonds	Michigan Transportation Bonds	Special Assessment Bonds	County- issued Bonds				
1999	\$ 17,510,000	\$ 18,885,000	\$ 1,340,000	\$ 7,392,862	\$ 45,127,862	N/A	123,530	\$ 365.32
2000	18,090,000	21,960,000	1,175,000	6,528,423	47,753,423	1.54%	124,471	383.65
2001	14,680,000	20,635,000	975,000	10,485,984	46,775,984	1.50%	125,140	373.79
2002	12,180,000	19,175,000	775,000	11,319,602	43,449,602	1.38%	125,800	345.39
2003	9,125,000	18,995,000	575,000	10,403,220	39,098,220	1.24%	126,470	309.15
2004	33,745,000	15,910,000	350,000	9,936,539	59,941,539	1.89%	127,270	470.98
2005	31,735,000	19,735,000	125,000	9,060,000	60,655,000	1.91%	128,026	473.77
2006	29,705,000	17,690,000	-	8,230,000	55,625,000	1.74%	128,692	432.23
2007	21,590,000	20,610,000	-	7,325,000	49,525,000	1.55%	128,914	384.17
2008	23,635,000	18,710,000	-	6,495,000	48,840,000	1.52%	129,200	378.02

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See the schedule of demographic and economic statistics for personal income data

City of Sterling Heights, Michigan

Direct and Overlapping Governmental Activities Debt June 30, 2008

Direct Debt

General Obligation Bonds

05/01/99	Roads	\$	350,000	
06/14/04	Judgment Funding, LT		11,915,000	
04/27/05	Limited Tax		2,745,000	
04/01/07	Limited Tax		2,675,000	
6/9/2008	Fire Stations, UT		<u>5,000,000</u>	\$ 22,685,000

Building Authority Bonds

02/02/00	City Center Commons		175,000	
11/05/03	Judicial Center Refunding, Series 2003		<u>775,000</u>	950,000

Michigan Transportation Fund Bonds

05/01/99	Bonds		3,000,000	
07/30/02	Refunding Bonds, Series 2002		1,080,000	
12/09/03	Refunding Bonds, Series 2003		1,925,000	
04/05/05	Refunding Bonds, Series 2005		3,180,000	
05/19/05	Bonds		4,975,000	
04/01/07	Bonds		<u>4,550,000</u>	18,710,000

Share of County-issued Drain Bonds

				<u>6,495,000</u>
	Total direct debt outstanding			48,840,000
Less:	MTF Bonds			<u>18,710,000</u>
	Net direct debt outstanding			30,130,000

Overlapping Debt

40.31%	Utica Community School District	219,755,000	88,583,241
42.85%	Warren Consolidated School District	135,318,000	57,983,763
16.07%	Macomb County at large	65,232,854	10,482,920
15.74%	Macomb Intermediate School District	1,500,000	<u>236,100</u>

Total overlapping debt 157,286,024

Net direct debt outstanding and overlapping debt \$ 187,416,024

Source: Municipal Advisory Council of Michigan, Detroit, Michigan

City of Sterling Heights, Michigan

Legal Debt Margin June 30, 2008

Valuation for debt limit:

2007 State Equalized Value (2008 Fiscal Year)	\$ 6,090,325,650
Addback of Assessed Value Equivalent - 2007 SEV of Act 198 exemptions	<u>580,853,450</u>

Total valuation for debt limit \$ 6,671,179,100

Debt limit (10 percent of state equalized valuation and equivalent) (1) \$ 667,117,910

Debt applicable to limit:

Amount of total direct outstanding debt	\$ 48,840,000
Less Michigan Transportation Fund Bonds	<u>18,710,000</u>

Net debt applicable limit 30,130,000

Legal debt margin \$ 636,987,910

(1) Debt limit set forth in Section 4a, Act 279 of 1909 and Act 202, P.A. 1943, as amended by Act 42, P.A. 1960

City of Sterling Heights, Michigan

Legal Debt Margin Information Last Ten Fiscal Years

	Fiscal Year				
	1999	2000	2001	2002	2003
Debt limit	\$ 393,407,316	\$ 428,023,008	\$ 458,984,640	\$ 504,750,820	\$ 553,280,216
Total net debt applicable to limit	<u>(24,902,862)</u>	<u>(24,618,423)</u>	<u>(25,165,984)</u>	<u>(23,499,602)</u>	<u>(19,528,220)</u>
Legal debt margin	<u>\$368,504,454</u>	<u>\$403,404,585</u>	<u>\$433,818,656</u>	<u>\$481,251,218</u>	<u>\$533,751,996</u>
Total net debt applicable to the limit as a percentage of debt limit	6.33%	5.75%	5.48%	4.66%	3.53%

	Fiscal Year				
	2004	2005	2006	2007	2008
Debt limit	\$ 577,993,680	\$ 597,544,820	\$ 622,283,210	\$ 645,406,095	\$ 667,117,910
Total net debt applicable to limit	<u>(43,681,539)</u>	<u>(40,795,000)</u>	<u>(37,935,000)</u>	<u>(28,915,000)</u>	<u>(30,130,000)</u>
Legal debt margin	<u>\$534,312,141</u>	<u>\$556,749,820</u>	<u>\$584,348,210</u>	<u>\$616,491,095</u>	<u>\$636,987,910</u>
Total net debt applicable to the limit as a percentage of debt limit	7.56%	6.83%	6.10%	4.48%	4.52%

City of Sterling Heights, Michigan

Pledged Revenue Coverage Last Ten Fiscal Years

Fiscal Year Ended	Limited Tax Obligation Bonds					Coverage
	Collections	Debt Service			Total	
		Principal	Interest			
1999	\$ 833,700	\$ 625,000	\$ 206,950	\$ 831,950	1.002	
2000	838,136	620,000	216,173	836,173	1.002	
2001	1,069,510	710,000	357,540	1,067,540	1.002	
2002	1,058,238	725,000	331,535	1,056,535	1.002	
2003	683,173	375,000	306,723	681,723	1.002	
2004	668,476	305,000	288,102	593,102	1.127	
2005	640,723	415,000	226,639	641,639	0.999	
2006	652,798	475,000	177,366	652,366	1.001	
2007	681,050	485,000	170,614	655,614	1.039	
2008	1,339,073	1,075,000	263,348	1,338,348	1.001	

Fiscal Year Ended	Michigan Transportation Fund Bonds					
	Collections	Debt Service			Coverage	
		Principal	Interest	Total		
1999	\$ 3,037,893	\$ 1,311,770	\$ 855,830	\$ 2,167,600	1.402	
2000	3,198,450	1,315,000	960,470	2,275,470	1.406	
2001	3,049,816	1,525,000	1,100,805	2,625,805	1.162	
2002	3,175,854	1,660,000	1,031,928	2,691,928	1.180	
2003	3,397,164	1,758,227	1,060,828	2,819,055	1.205	
2004	3,655,236	1,855,000	837,354	2,692,354	1.358	
2005	3,530,329	1,885,000	636,159	2,521,159	1.400	
2006	3,488,938	2,045,000	677,163	2,722,163	1.282	
2007	3,450,943	1,730,000	626,665	2,356,665	1.464	
2008	3,398,754	1,900,000	735,012	2,635,012	1.290	

Fiscal Year Ended	Special Assessment Bonds					
	Collections	Debt Service			Coverage (1)	
		Principal	Interest	Total		
1999	\$ 443,713	\$ 150,000	\$ 66,908	\$ 216,908	2.046	
2000	222,380	165,000	60,136	225,136	0.988	
2001	192,015	200,000	51,963	251,963	0.762	
2002	169,933	200,000	42,694	242,694	0.700	
2003	120,853	200,000	33,188	233,188	0.518	
2004	105,391	225,000	22,875	247,875	0.425	
2005	27,200	225,000	12,338	237,338	0.115	
2006	-	125,000	3,125	128,125	-	
2007	-	-	-	-	-	
2008	-	-	-	-	-	

(1) Customers may choose to make special assessment payments up front to avoid paying interest to the City, which creates uneven payment streams over the life of the assessment.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Demographic and Economic Statistics Last Nine Fiscal Years

Fiscal Year Ended June 30	Estimated Population	Median Age (2)	Education Age 25 or Older (2)		Per Capita Income (2)	Income (in thousands)	Number of Households (3)	Median Household Income (in 1999 dollars) (3)	Unemployment Rate (4)
			High School Graduate or Higher	Bachelor's Degree or Higher					
2000	124,471 (2)	37	84.0%	23.0%	\$ 24,958	\$ 3,106,547	45,594	\$ 60,494	2.5%
2001	125,140 (1)	N/A	N/A	N/A	N/A	3,123,244	46,072	60,494	4.1%
2002	125,800 (1)	N/A	N/A	N/A	N/A	3,139,716	48,775	60,494	4.8%
2003	126,470 (1)	N/A	N/A	N/A	N/A	3,156,438	48,990	60,494	5.3%
2004	127,270 (1)	N/A	N/A	N/A	N/A	3,176,405	49,260	60,494	5.4%
2005	128,026 (1)	N/A	N/A	N/A	N/A	3,195,273	49,405	60,494	5.6%
2006	128,692 (1)	N/A	N/A	N/A	N/A	3,211,895	49,871	60,494	6.3%
2007	128,914 (1)	N/A	N/A	N/A	N/A	3,217,436	50,761	60,494	7.3%
2008	129,200 (1)	N/A	N/A	N/A	N/A	3,224,574	50,375	60,494	8.8%

Sources:

- (1) City of Sterling Heights
- (2) United States Census Bureau - 2000 Census (last reported)
- (3) Southeast Michigan Council of Governments (SEMCOG)
- (4) Michigan Department of Labor and Economic Growth

City of Sterling Heights, Michigan

Miscellaneous Demographics

Population			Labor Characteristics	
2000 U.S. Census	124,471		By Occupation:	Number of Employees
1990 U.S. Census	117,810		Management, professional, and related	22,844
1980 U.S. Census	108,999		Service	7,889
			Sales and office	19,213
			Farming, forestry, and fishing	51
			Construction, extraction, and maintenance	4,927
			Production, transportation, and material moving	9,416
			Total	64,340
Income Characteristics			By Industry:	
Household Income	Number of Households		Agriculture, forestry, fishing, hunting, and mining	53
Less than \$10,000	2,157		Construction	3,226
\$10,000 - \$14,999	1,795		Manufacturing	16,639
\$15,000 - \$24,999	3,749		Wholesale trade	2,471
\$25,000 - \$34,999	4,473		Retail trade	9,105
\$35,000 - \$49,999	6,497		Transportation, warehousing, and utilities	1,583
\$50,000 - \$74,999	10,773		Information	1,475
\$75,000 - \$99,999	8,087		Finance, insurance, real estate, rental, and leasing	4,091
\$100,000 - \$149,999	6,977		Professional, scientific, management, administrative, and waste management services	6,774
\$150,000 or more	1,873		Educational, health, and social services	9,651
			Arts, entertainment, recreation, accommodation, and food services	4,777
			Other professional and related services	2,372
			Public administration	2,123
			Total	64,340
Residential Characteristics			Educational Characteristics	
Single Family	75.21%		Years of School Completed	Persons 25 and Over
Multi Family	21.18%		Less than 9th grade	6.40%
Mobile Homes	3.61%		9th to 12th grade, no diploma	9.60%
			High school graduate	29.20%
			Some college, no degree	23.60%
			Associate's degree	8.20%
			Bachelor's degree	15.70%
			Graduate or professional degree	7.30%
Age Statistics				
Years	1990	2000		
Under 5	6.50%	6.20%		
5 to 19	19.40%	20.30%		
20 to 24	11.20%	6.10%		
25 to 44	33.60%	30.40%		
45 to 64	20.10%	25.20%		
Over 64	9.20%	11.80%		

Source: 2000 United States Census

City of Sterling Heights, Michigan

Principal Employers (Major Employers) Last Fiscal Year and Nine Years Ago

Company Name	Product/Service	Year Ended June 30, 2008			Year Ended June 30, 1999		
		Employees	Rank	Total City Employment	Employees	Rank	Total City Employment
							(1)
Chrysler LLC	Automotive assembly and stamping	2,450	1	4.54%	6,875	1	
General Dynamics	Defense-related manufacturing	2,278	2	4.23%	1,425	6	
Lakeside Associates	Retail shopping center	2,000	3	3.71%	2,500	4	
Ford Motor Company	Automotive axles and chassis components	1,400	4	2.60%	6,500	2	
Detroit News	Printing plant - Newspapers	1,200	5	2.23%	730	8	
Utica Community Schools	Education (2)	1,158	6	2.15%	4,150	3	
Warren Consolidated Schools	Education (2)	792	7	1.47%	2,200	5	
City of Sterling Heights	Local government	624	8	1.16%	623	10	
Miliken Millwork	Wooden, stainless steel doors and stairs	500	9	0.93%	-		
Kuka Flexible Production Systems, Inc.	Automotive interior	450	10	0.83%	-		
U.S. Farathane Corporation	Paints and finishes	450	11	0.83%	-		
Faurecia	Interior systems	400	12	0.74%	-		
Key Safety Systems, Inc.	Safety systems	400	13	0.74%	-		
Mayco Plastics	Plastic injection molding	400	14	0.74%	-		
E & R Industrial Sales, Inc.	Industrial supply wholesaler	300	15	0.56%	-		
Cadillac Products, Inc.	Plastic bags, sheets, paper	-			750	7	
Automotive Plastic Technologies Co.	Plumbing, pipe and bottles	-			650	9	
MNP	Nut, bolt, and wire manufacturer	-			580	11	
T.R.W.	Auto sub-component assembly	-			570	12	
Breed Technologies	Safety restraints	-			560	13	
Chivas Products Ltd.	Moldings	-			500	14	
Modular Plastics	Plastic molds	-			330	15	
	Fifteen largest employers	14,802		47.67%	28,943		
	Other employers	39,110		72.54%			
	Total employment	53,912					

(1) Information to determine percentage of total employment for ten years prior is not available prior to June 30, 2005.

(2) Effective with June 30, 2008, employees reported include those working at locations within City boundaries in place of district wide.

Source: City of Sterling Heights, Chamber of Commerce and Michigan Manufacturing Directory, 2007 Edition

City of Sterling Heights, Michigan

Operating Indicators by Function Last Ten Fiscal Years

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Government										
Election Data										
Registered voters	84,437	77,508	77,134	79,426	79,100	79,221	83,461	83,910	83,639	84,082
Voters at polls	30,875	11,604	42,229	9,285	30,309	10,445	45,608	7,654	34,405	3,842
Absentee ballots	8,240	6,639	10,593	6,981	8,908	7,113	14,801	7,605	11,904	7,556
Percent voting	46.32%	23.54%	68.48%	20.48%	49.58%	22.16%	72.38%	18.18%	55.37%	13.56%
41A District Court										
Court Cases										
Civil	1,454	1,526	1,754	2,000	2,300	2,508	2,709	2,862	3,239	3,867
Criminal	8,338	8,488	6,651	5,827	5,920	4,782	3,994	4,211	4,533	5,677
Landlord and tenant	1,705	1,713	1,642	1,930	2,200	2,285	2,203	2,226	2,433	2,471
Small claims	596	605	639	657	612	610	513	488	432	425
Traffic	33,534	34,571	25,405	20,859	25,044	27,282	25,338	24,256	27,143	27,709
Public Safety										
Police Protection										
Adult arrests	3,585	3,836	3,452	3,198	2,988	2,707	2,406	2,560	3,326	3,747
Civil infractions	26,691	27,087	21,265	14,303	18,450	18,605	23,627	23,819	26,582	27,596
Group A offenses (2)	7,361	7,823	7,379	6,873	6,897	6,260	6,474	7,926	7,873	7,361
Group B offenses (3)	2,753	3,137	3,129	2,808	2,424	3,623	4,170	4,609	4,491	3,433
Injury accidents	882	836	804	747	766	884	862	810	806	784
Juvenile arrests	338	349	299	318	225	246	183	239	251	174
OUIL arrests	634	626	593	541	405	412	361	375	328	340
Parking violations	1,774	1,816	1,918	1,616	2,293	1,696	1,713	1,730	2,016	1,706
Property damage	3,042	3,282	3,476	3,261	3,317	3,637	3,669	3,663	3,415	4,353
Private property damage	1,646	1,663	1,673	1,546	1,419	1,426	1,439	1,304	1,322	1,133
Total traffic violations	35,205	36,301	29,389	24,543	27,012	24,208	26,972	25,379	29,166	30,484
Fire Protection										
Emergency alarms answered	8,080	7,820	7,747	8,425	5,966	9,215	9,292	9,573	10,261	10,500
Fire inspections conducted	4,537	4,482	4,202	4,139	3,871	4,427	3,832	4,204	4,624	3,767
Inspection violations issued	2,431	4,071	3,890	3,239	3,225	4,451	3,697	6,020	10,292	9,391
Medical emergencies	5,568	5,052	5,191	5,517	5,888	6,551	6,719	6,927	7,493	7,691
Training hours completed	37,982	35,016	33,798	36,491	32,839	34,583	35,809	34,124	33,538	33,857
Recreation and Culture										
Parks and Recreation										
Adult athletics attendance	14,115	12,675	18,810	19,383	14,150	13,980	15,825	19,480	18,782	20,135
Instructional swim attendance	9,130	9,030	8,390	8,281	9,025	9,640	9,592	8,896	9,386	7,570
Instructional rec. attendance	27,090	27,230	26,840	26,620	24,330	24,285	24,970	28,070	26,567	25,666
Nature program attendance	23,450	22,465	22,750	15,460	27,290	28,350	29,362	22,748	24,582	24,399
Senior program attendance	89,230	86,530	89,990	111,120	121,990	126,280	111,020	111,610	109,528	109,970
Special event attendance	54,500	55,710	55,890	68,530	68,480	68,500	71,930	72,725	73,000	73,100
Special recreation program attendance	13,860	13,820	13,880	15,585	15,700	15,870	15,895	16,870	14,878	16,060
Summer playground attendance	21,580	18,775	21,250	21,097	19,120	15,600	11,646	9,992	11,025	14,094
Youth athletics attendance	55,000	66,840	45,930	45,064	56,035	56,080	53,325	49,480	53,978	52,885
Library										
Book Van deliveries	10,771	9,125	8,098	9,126	9,759	12,623	12,844	12,820	11,242	9,318
Community meeting room reservations	N/A	N/A	N/A	N/A	N/A	295	150	299	341	384
In-house materials usage	N/A	N/A	N/A	N/A	190,771	159,897	139,897	140,033	144,698	139,973
Interlibrary loan requests	23,448	17,869	17,995	45,832	86,855	88,657	99,078	109,995	120,393	123,142
Interlibrary loans - Lent	N/A	N/A	N/A	N/A	70,782	75,931	89,405	100,260	109,814	113,947
Items circulated	635,697	540,720	447,240	690,262	687,070	662,579	641,730	648,967	635,425	616,323
Library visits	283,793	219,708	193,505	296,249	309,531	371,398	388,706	417,601	420,716	442,768
Online computer uses	248,273	211,267	170,452	187,950	296,414	357,869	441,111	456,752	492,979	514,794
Program attendance	13,659	11,045	14,687	24,004	23,046	22,034	22,780	21,275	25,470	36,204
Reference transactions	111,985	102,602	95,289	135,514	137,941	132,104	141,056	133,617	132,557	141,610
Registered borrowers	56,969	52,616	53,680	53,822	53,435	53,476	57,050	50,390	50,599	51,098

City of Sterling Heights, Michigan

Operating Indicators by Function (Continued) Last Ten Fiscal Years

	1999	2000	2001	2002	2003	2004	2005	2006 (4)	2007	2008
Water and Sewer Services										
Customers:										
Residential	32,512	33,048	33,495	34,049	34,302	34,529	34,535	34,850	35,021	35,048
Commercial/Industrial	3,284	3,266	3,367	3,534	3,582	3,741	4,185	4,272	4,477	4,539
Water (in thousand cubic feet):										
Purchased from Detroit	888,703	865,058	847,075	843,530	885,283	828,398	867,931	803,969	775,817	786,726
Sold to residents	923,840	887,265	800,654	845,667	881,780	815,645	811,252	852,661	789,033	827,893
Rates (per thousand):										
1,000 CU. FT.	\$ 17.54	\$ 18.07	\$ 18.94	\$ 20.72	\$ 22.77	\$ 22.72	\$ 25.42	\$ 27.13	\$ 28.64	\$ 30.74
Next 2,000 CU.FT.	16.16	16.64	17.44	19.08	21.28	(1)	(1)	27.13	28.64	30.74
Over 3,000 CU.FT.	15.12	15.69	16.45	18.01	20.57	(1)	(1)	27.96	29.50	31.67
Sewer only - Per billing	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	25.00	30.00

(1) During July 1, 2003 - June 30, 2005, the City used a single-tier rate structure.

(2) Aggravated assault, arson, burglary, criminal sexual conduct and murder, larceny, motor vehicle theft, robbery, etc.

(3) Assault, disorderly conduct, family trouble, negligent homicide, obstructing justice, etc.

(4) Effective July 1, 2005, the City implemented a two-tier rate structure.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Capital Asset Statistics by Function Last Ten Fiscal Years

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Government										
Buildings										
City Center Commons	1	1	1	1	1	1	1	1	1	1
41A District Court	1	1	1	1	1	1	1	1	1	1
Public Safety										
Police Protection										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles - Marked	45	45	48	48	48	48	49	49	49	54
Vehicles - Unmarked	68	68	68	68	68	68	68	80	82	79
Fire Protection										
Stations	5	5	5	5	5	5	5	5	5	5
Vehicles - Extinguishment	10	10	11	12	13	14	14	14	15	16
Public Works										
Streets and Sidewalks										
Miles of City:										
Primary streets	58	59	60	60	60	60	60	60	60	60
Secondary streets	280	282	281	282	285	285	286	287	289	289
Sidewalks	529	532	535	537	565	565	566	605	607	608
Bridges	11	11	11	11	11	11	11	11	11	11
Buildings	2	2	2	2	2	2	2	2	2	2
Street lights	2,290	2,290	2,474	2,490	2,495	2,475	2,472	2,508	2,513	2,520
Vehicles - Snow plows	19	20	21	21	21	21	21	20	21	22
Water and Sewer Services										
Fire hydrants	5,901	6,033	6,488	6,597	6,633	6,796	6,932	7,015	7,050	7,162
Miles of water mains	518	525	535	544	554	558	563	569	570	573
Miles of sanitary sewers	401	406	412	415	415	422	424	428	429	430
Recreation and Culture										
Parks and Recreation										
Acres	800	800	810	811	820	820	820	820	820	820
Developed parks	25	25	26	27	28	28	28	28	28	28
Buildings	3	3	3	3	3	3	3	3	3	3
Library										
Book collections	182,015	183,167	215,840	191,481	197,472	186,992	189,822	190,791	188,365	197,412
Other collections (1)	20,528	23,198	24,786	25,442	28,250	24,622	23,937	23,776	35,619	36,619
Buildings	1	1	1	1	1	1	1	1	1	1
Vehicles - Library van	1	1	1	1	1	1	1	1	1	1

(1) Includes art prints, audio/video cassettes, compact discs, posters, puppets, software discs, etc.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Building Permits Last Ten Fiscal Years at Market Value

Fiscal Year Ended June 30	Residential						Total Residential	
	New Construction			Additions/Improvements				
	Number	Value		Number	Value			
1999	450	\$	55,025,833	1,499	\$	5,170,833	\$	60,196,666
2000	304		38,156,806	1,864		6,261,197		44,418,003
2001	414		63,789,140	2,266		9,055,033		72,844,173
2002	513		51,306,550	1,766		2,737,615		54,044,165
2003	763		76,609,958	1,078		3,017,213		79,627,171
2004	631		59,756,113	787		2,218,100		61,974,213
2005	546		54,325,044	876		1,830,299		56,155,343
2006	269		48,957,415	734		1,601,036		50,558,451
2007	152		25,895,984	598		2,454,254		28,350,238
2008	37		8,034,365	536		1,503,824		9,538,189

Fiscal Year Ended June 30	Commercial					Total Commercial
	New Construction		Additions/Improvements			
	Number	Value	Number	Value		
1999	36	\$ 39,098,478	277	\$ 22,097,699	\$ 61,196,177	
2000	68	31,976,338	237	28,031,281	60,007,619	
2001	96	40,493,780	156	20,199,408	60,693,188	
2002	42	25,736,795	295	16,143,812	41,880,607	
2003	19	17,228,169	265	18,095,804	35,323,973	
2004	29	28,123,162	272	59,264,545	87,387,707	
2005	31	34,143,253	271	26,257,489	60,400,742	
2006	24	25,096,450	302	26,567,543	51,663,993	
2007	24	44,813,309	254	40,418,973	85,232,282	
2008	17	38,153,479	239	26,322,149	64,475,628	

Source: City of Sterling Heights Office of Building Services

City of Sterling Heights, Michigan

Full-time Equivalent City Government Employees by Function Last Ten Fiscal Years

	Full-time and Part-time Employees as of June 30									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<u>Function</u>										
General government	95	96	99	99	99	97	95	95	94	95
41A District Court	37	37	37	37	37	36	38	38	40	40
Public safety:										
Police	265	265	266	266	263	259	258	259	259	260
Fire	107	107	107	114	111	107	107	107	108	108
Public Works:										
City development	49	50	50	51	51	50	50	50	32	32
Public works	55	56	56	57	45	43	43	43	43	43
Street services	23	23	23	23	23	23	23	23	23	23
Engineering (1)	-	-	-	-	-	-	-	-	19	19
Recreation and culture:										
Parks and recreation	16	16	16	16	16	16	16	16	16	16
Library	42	42	42	42	42	41	41	41	41	41
Water and sewer	41	41	41	41	41	41	41	41	41	41
Total	730	733	737	746	728	713	712	713	716	718

(1) Prior to 2007, engineering employees were included in City Development.

Source: City of Sterling Heights

Continuing Disclosure

City of Sterling Heights, Michigan

State-shared Revenues Last Ten Fiscal Years

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Modified Accrual</u> <u>Basis of Accounting</u>	<u>Accrual Basis of</u> <u>Accounting</u>
1999	\$ 12,040,644	N/A
2000	12,489,726	N/A
2001	13,329,919	N/A
2002	13,315,069	\$ 13,315,069
2003	12,253,193	13,114,050
2004	11,405,282	11,249,778
2005	11,072,350	11,127,156
2006	10,999,284	11,003,347
2007	10,861,805	10,675,667
2008	10,683,045	10,675,667

Gas and Weight Taxes Last Ten Fiscal Years

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Type of Street</u>		<u>Total</u> <u>Gas and Weight Tax</u> <u>(Act 51) Receipts</u>
	<u>Major Roads</u>	<u>Local Roads</u>	
1999	\$ 4,408,865	\$ 1,666,920	\$ 6,075,785
2000	4,642,820	1,754,080	6,396,900
2001	4,647,631	1,452,001	6,099,632
2002	4,836,746	1,514,962	6,351,708
2003	4,937,259	1,857,068	6,794,327
2004	5,308,588	2,001,883	7,310,471
2005	5,124,980	1,935,678	7,060,658
2006	5,063,169	1,914,706	6,977,875
2007	5,006,831	1,895,054	6,901,885
2008	4,933,090	1,864,418	6,797,508

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Labor Agreements June 30, 2008

Name	Contract Expiration Date	Actual Number of Employees Covered
Union Employees		
Technical/Office Employees Michigan Association of Public Employees (MAPE)	6/30/2012	109
Police Clerical Employees Michigan Association of Police (MAP)	6/30/2011	26
Emergency Dispatchers Police Officers Association of Michigan (POAM)	6/30/2012	23
Department of Public Works Field Employees Teamsters, Local 214	6/30/2012	66
Department of Public Works Supervisors AFSCME, Local 1917, Council 25	6/30/2012	9
Firefighters International Association of Firefighters, Local 1557	6/30/2012	100
Police Officers Michigan Association of Police (MAP)	6/30/2011	134
Police Command Officers Sterling Heights Police Command Officers Association	6/30/2012	37
Court Clerical AFSCME, Local 1884, Council 25	6/30/2011	23
Professional and Technical Employees United Auto Workers, Unit 40, Local 412	6/30/2013	56
Supervisory Employees United Auto Workers, Unit 41, Local 412	6/30/2012	21
Executive Employees Michigan Association of Public Employees (MAPE)	6/30/2013	6
Nonunion Employees		
City Manager	N/A	1
41A District Court Judges	N/A	3
41A District Court Administration	N/A	10

Source: City of Sterling Heights

City of Sterling Heights

**Report to the Mayor and Council Members
June 30, 2008**

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights
40555 Utica Road
Sterling Heights, MI 48311

We have recently completed our audit of the basic financial statements of the City of Sterling Heights for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, recommendations, and informational comments which impact the City of Sterling Heights:

	<u>Page</u>
Report on Internal Control	3-4
Results of the Audit	5-8
Informational	9-11
Attachment A - Auditor Responsibility	12-13

We are grateful for the opportunity to be of service to the City of Sterling Heights. Should you have any questions regarding the comments in this report, please do not hesitate to call.

October 27, 2008

Report on Internal Control

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights
40555 Utica Road
Sterling Heights, MI 48311

Dear Mayor and Council Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the City of Sterling Heights financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards are to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this **Report on Internal Control** will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Sterling Heights as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Sterling Heights internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Sterling Heights internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights

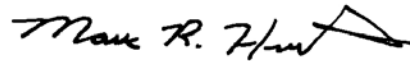
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, mayor, council members, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

PLANTE & MORAN, PLLC



Mark R. Hurst

October 27, 2008

Results of the Audit

To the Mayor and Council Members
City of Sterling Heights
40555 Utica Road
Sterling Heights, MI 48311

We have audited the financial statements of the City of Sterling Heights for the year ended June 30, 2008, and have issued our report thereon dated October 27, 2008. Professional standards require that we provide you with the following information related to our audit.

Auditor Responsibilities (Attachment A)

Annually, we are required by governmental auditing standards to describe to you our "auditor responsibilities." Attached please find a letter addressed to the City of Sterling Heights Mayor and Council Members that describes our responsibilities. We had previously included these communications in our engagement letter dated April 28, 2008.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 28, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Sterling Heights. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the City of Sterling Heights financial statements has also been conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights

Under those Government Auditing Standards, we have made some assessments of the City of Sterling Heights compliance with certain provisions of laws, regulations, contracts and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated October 27, 2008 regarding our consideration of the City of Sterling Heights internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements.

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of the City of Sterling Heights, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, Government Auditing Standards requires disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 16, 2008.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Sterling Heights are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the City of Sterling Heights during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights

The most sensitive estimate affecting the financial statements is related to property loss, errors and omissions, workers compensation and short-term disability.

The City of Sterling Heights is self-insured for all those claims listed above up to a retention amount. As a result, management has made estimates of incurred but not reported (IBNR) claims and recorded a liability of approximately \$3,500,000. As disclosed in Note 10 of the financial statements, the liability is based on past experience and claims incurred but not reported. We evaluated the key factors and assumptions used to develop the estimated claims liability in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements is the postemployment benefits footnote. The disclosure of postemployment benefits in Note 13 to the financial statements provides detail describing healthcare benefits available to full-time City of Sterling Heights employees upon retirement, the current costs incurred to pay for those benefits, and a description of the upcoming reporting changes that will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employees rather than at the time premiums are paid.

Other Information in Documents Containing Audited Financial Statements

Our responsibility relates to the City of Sterling Heights financial statements and other information as identified in the auditor's report. We have no responsibility for any other information that may be included in documents containing those audited statements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. We read the management's discussion and analysis, and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

Single Audit Report Communication

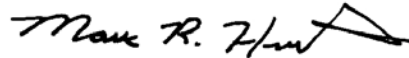
In addition to the comments and recommendations in this letter, our observations and comments regarding the City of Sterling Heights internal controls have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards (single audit report) and we recommend that the matters we have noted there receive your careful consideration.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights

This information is intended solely for the use of the Mayor and Council Members and management of the City of Sterling Heights and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

PLANTE & MORAN, PLLC



Mark R. Hurst

October 27, 2008

DRAFT

Informational

The following are other items we feel warrant your consideration:

Overview of the City's Financial Condition

For the first time since 1994, the City utilized a portion of its General Fund reserves. In the current year, the General Fund experienced a decrease in its fund balance of approximately \$425,000. As of June 30, 2008, the remaining cumulative fund balance of the General Fund was approximately \$15.3 million. Unreserved and undesignated fund balance remains at approximately 15 percent of General Fund expenditures, which is well within the range expected by bonding agencies.

During the year ended June 30, 2008, the City continued its efforts to provide funding for future retiree medical costs at a rate in excess of the amounts recommended in the City's 2004 actuarial study. In addition, the City's budget and planning process resulted in the City's actual General Fund expenditures being within .3 percent of the of amounts budgeted. We commend the City on its ability to meet the actuarial determined funding levels prior to the implementation dates required by the Governmental Accounting Standards Board and for the fiscal attentiveness demonstrated during the budget process.

Looking ahead, the state of the economy at both the national and state level is a point of concern for all of our municipal clients. Reductions in the taxable value of properties, continued funding of retiree health care benefits and declining pension fund investment values will place even further pressure on the budgets of local governmental entities. We understand that City Management has been monitoring and communicating the status of these items to City Council on a regular basis. We encourage the City to continue its proactive efforts to quantify, communicate and react to these adverse financial conditions.

New Auditing Standards

During the implementation of our audit procedures for the year ended June 30, 2008, Plante & Moran instituted the requirements of eight new auditing standards. These new auditing standards required significant changes in how the audit was performed, bringing auditing rules of governmental units into closer alignment with the standards imposed on audits of public companies under Sarbanes-Oxley.

These new rules, which are known collectively as the Risk Assessment Standards, required the City's financial services staff to complete a number of detailed questionnaires related to the City's internal control processes. These questionnaires were then utilized in the planning and implementation of our audit procedures. The process of preparing these internal control summaries was significant and required even further diligence on the part of the City's financial team. We believe that the end result of these efforts is a stronger and more risk directed audit process for the City.

We would like to recognize the involvement of the City's financial services office in the audit process - specifically, their ability to meet the requirements of these new detailed audit standards. In order to accomplish audit deadlines, we realize the significant time commitment needed by the financial services team in the days and weeks leading up to the audit and appreciate their dedication to this important process. The dedication of the City's financial services team results in a more timely, efficient and effective audit process.

DRAFT

Attachment A

Auditor Responsibilities

During the planning phase of an audit, all independent auditors are required to communicate certain auditor responsibilities to the Mayor and Council Members in order to help you obtain a better understanding of the audit process. The following is a brief description of the independent auditor's responsibilities.

Auditor's Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. The financial statements remain the representations of management.

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Auditor's Responsibility for Testing and Reporting on Internal Controls and Compliance with Laws, Regulations, Grant Agreements and Contract Provisions

In the process of a financial statement audit, we gain an understanding of internal control of the organization as well as the laws and regulations having a direct and material effect on the organization for the purpose of assisting in determining the nature, timing and extent of audit testing. Tests of controls and compliance with laws and regulations in a financial statement audit contribute to the evidence supporting our opinion on the financial statements.

Attachment A (continued)

However, the limited purpose and scope of these tests are not sufficient to provide a basis for an opinion on the adequacy of internal control or on compliance with laws, regulations, grant agreements and contract provisions.

The limited purpose of these tests in a financial statement audit may not meet the needs of some users of auditor's reports who require additional information on internal controls and on compliance with laws, regulations, grant agreements and contract provisions. To meet certain audit report users' needs, laws, regulations, grants and contracts often prescribe testing and reporting on internal controls and compliance to supplement the coverage of these areas in a financial statement audit. In accordance with OMB Circular A-133 covering federal awards, supplemental testing of and reporting on internal controls and compliance have been performed.